

IMPORTANT NOTICE

You must read the following before continuing.

The following applies to the prospectus following this notice and you are therefore advised to read this carefully before reading, accessing or making any other use of the prospectus. In accessing the prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE ATTACHED PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND IN RELIANCE ON, REGULATION S (“**REGULATION S**”) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) AND THAT CAN MAKE REPRESENTATIONS SET FORTH IN THE NEXT PARAGRAPH IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS PROHIBITED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS REASONABLY BELIEVED TO BE QUALIFIED INSTITUTIONAL BUYERS (EACH A “**QIB**”) WITHIN THE MEANING OF RULE 144A, WHICH CAN REPRESENT THAT (A) THEY ARE QIBs WITHIN THE MEANING OF RULE 144A, (B) THEY ARE ACTING FOR THEIR OWN ACCOUNT, OR THE ACCOUNT OF ONE OR MORE QIBs, PURCHASING AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES AND (C) THEY WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S.

Confirmation of your representation: In order to be eligible to view the attached prospectus or make an investment decision with respect to the securities, you must be (i) outside the United States (as defined in Regulation S) and a person other than a U.S. person (as defined in Regulation S) who is not acting for the account or benefit of a U.S. person or (ii) a QIB which can make the representations set forth above. By accepting the e-mail and accessing the attached prospectus, you shall be deemed to have represented to us that you are outside the United States and not a U.S. person and not acting for the account or benefit of a U.S. person or that you are a QIB and that you can make the representations set forth above and that you consent to delivery of such prospectus by electronic transmission.

This prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), (iii) persons who fall within article 49(2)(a) to (d) of the Order and (iv) any other persons to whom this prospectus may for the purposes of section 21 of the Financial Services and Markets Act 2000 be distributed, provided such persons in (i) to (iv) above are not either (a) retail clients as defined in point (11) of article 4(1) of Directive 2014/65/EU, as amended (“**MiFID II**”), or (b) customers within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of article 4(1) of MiFID II (all such persons together being referred to as “**Relevant Persons**”). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this prospectus or any of its contents.

You are reminded that this prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited, Société Générale or Bank GPB International S.A. or any person who controls any one of them, nor any director, officer, employee or agent of either of them nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited, Société Générale or Bank GPB International S.A.



LUKOIL SECURITIES B.V.

US\$1,500,000,000 3.875% Notes due 2030

each guaranteed by
PJSC "LUKOIL"

<p>The Company</p> <ul style="list-style-type: none">We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia. We divide our business into three principal segments: exploration and production; refining, marketing and distribution; and corporate and other. <p>The Issuer</p> <ul style="list-style-type: none">Our direct wholly-owned subsidiary, LUKOIL Securities B.V., a company organised under the laws of The Netherlands, will issue the US\$1,500,000,000 3.875% Notes due 2030 (the "notes"). <p>The Guarantor</p> <ul style="list-style-type: none">If LUKOIL Securities B.V. fails to make payments on the notes when they are due, PJSC "LUKOIL" ("LUKOIL") will be required to make them under the guarantee. LUKOIL is the only guarantor of the notes. <p>Maturity</p> <ul style="list-style-type: none">Unless previously redeemed or purchased and cancelled in accordance with the "Terms and Conditions of the Notes", the notes will mature on 6 May 2030. <p>Interest</p> <ul style="list-style-type: none">LUKOIL Securities B.V. will pay interest on the notes at an annual rate equal to 3.875%.LUKOIL Securities B.V. will make interest payments on the notes semi-annually on 6 May and 6 November of each year, commencing on 6 November 2020.LUKOIL Securities B.V. will make payments under the notes free and clear of, and without withholding or deduction for, any taxes imposed by The Netherlands or the Russian Federation, to the extent described under "Terms and Conditions of the Notes". <p>Ranking</p> <ul style="list-style-type: none">The notes will be general unsecured and unsubordinated obligations of LUKOIL Securities B.V., ranking senior to all present and future subordinated obligations and equal in right of payment to all present and future unsecured and unsubordinated obligations.	<ul style="list-style-type: none">The guarantee will be our general unsecured and unsubordinated obligation, ranking senior to all our existing and future subordinated obligations, equal in right of payment to all our existing and future unsecured and unsubordinated obligations, effectively junior to all our existing and future secured obligations and structurally junior to all existing and future obligations of our subsidiaries. <p>Redemption</p> <ul style="list-style-type: none">LUKOIL Securities B.V. may at any time prior to 6 February 2030 redeem the notes, in each case in whole or in part by paying a "make-whole" premium. See "Terms and Conditions of the Notes".LUKOIL Securities B.V. may redeem all of the notes at 100% of the principal amount thereof, plus accrued and unpaid interest, at any time on or after 6 February 2030 or in the event of certain taxation changes. See "Terms and Conditions of the Notes". <p>Notice to Investors</p> <ul style="list-style-type: none">INVESTING IN THE NOTES INVOLVES RISKS. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 20 BEFORE INVESTING IN THE NOTES.The notes will be offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and in the United States to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act), which can make certain representations as described in "Transfer Restrictions" and "Subscription and Sale", in reliance on the exemption from registration provided by Rule 144A. For a description of these and further restrictions, see "Transfer Restrictions" and "Subscription and Sale". <p>Settlement</p> <ul style="list-style-type: none">The notes are expected to be delivered on or about 6 May 2020. <p>Listing</p> <ul style="list-style-type: none">We have applied to the Financial Conduct Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000 (the "FCA") for the notes to be admitted to the Official List of the FCA (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the notes to be admitted to trading on the regulated market of the London Stock Exchange (the "Market"). References in this prospectus to the notes being "listed" (and all related references) shall mean that the notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of MiFID II. There can be no assurance that a trading market for the notes will develop.
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ISSUE PRICE:
100%

Joint Lead Managers and Active Bookrunners

CITIGROUP

SOCIÉTÉ GÉNÉRALE
CORPORATE & INVESTMENT BANKING

Joint Lead Manager and Passive Bookrunner

BANK GPB INTERNATIONAL S.A. (GAZPROMBANK)

Dated 30 April 2020

This prospectus comprises a prospectus for the purposes of Prospectus Regulation (Regulation (EU) 2017/1129) (the “**Prospectus Regulation**”) and for the purpose of giving information with regard to LUKOIL Securities B.V. (the “**Issuer**”), LUKOIL and its subsidiaries (the “**Group**”) and the notes, which, according to the particular nature of the Issuer, LUKOIL and the notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, profits and losses, financial position, and prospects of the Issuer and LUKOIL and the rights attaching to the notes and the guarantee. This prospectus has been approved by the FCA as competent authority under the Prospectus Regulation; the FCA only approves this prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation; such approval should not be considered as: (a) an endorsement of the Issuer and LUKOIL that are the subject of this prospectus; or (b) as an endorsement of the quality of the notes that are the subject of this prospectus. Investors should make their own assessment as to the suitability of investing in the notes. The Issuer and LUKOIL accept responsibility for the information contained in this prospectus. To the best of the knowledge of the Issuer and LUKOIL, the information contained in this prospectus is in accordance with the facts and this prospectus makes no omission likely to affect the import of such information.

Certain information in this prospectus contained under the headings “Presentation of Financial and Other Information”, “Presentation of Reserves and Resources”, “Overview”, “Summary Consolidated Financial and Other Information”, “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” has been based on information obtained from third-party sources that we believe to be reliable. These sources, as identified herein, are Platts and InfoTEK in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors”, Miller and Lents, Ltd. in “Presentation of Reserves and Resources”, “Overview”, “Summary Consolidated Financial and Other Information”, “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business”, Central Bank of Russia (“**CBR**”) in “Presentation of Financial and Other Information”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, the Federal State Unitary Enterprise “Central Dispatching Department of Fuel Energy Complex” (“**CDU TEK**”) in “Overview”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” and the Federal State Statistics Service of Russia (“**Rosstat**”) in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. This information has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by such third-party sources, no facts have been omitted which would render this reproduced information inaccurate or misleading. We have relied on the accuracy of this third-party information without independent verification. Furthermore, the official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT. SEE “*RISK FACTORS*”.

No person is authorised to give any information or to make any representation in connection with the offer or sale of the notes other than as contained in this prospectus and any information or representation not so contained must not be relied upon as having been authorised by the Issuer, LUKOIL or any Manager (as defined in “*Subscription and Sale*”). Neither the delivery of this prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or LUKOIL since the date hereof or the date upon which this prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or LUKOIL since the date hereof or the date upon which this prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, express or implied, is made by any Manager as to the accuracy or completeness of such information.

Neither the Joint Lead Managers, the Active Bookrunners, the Passive Bookrunner nor any of their respective affiliates have authorised the whole or any part of this prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this prospectus or any responsibility for any acts or omissions of the Issuer, the Guarantor or any other person (other than the relevant Joint Lead Manager, Active Bookrunner, Passive Bookrunner or respective affiliate) in

connection with the issue and offering of the notes. Neither the delivery of this prospectus nor the offering, sale or delivery of any note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this prospectus.

This prospectus does not constitute an offer to sell, or a solicitation to subscribe for or purchase, by or on behalf of the Issuer, LUKOIL, the Managers (as defined in “*Subscription and Sale*”) or any other person, any of the notes in any jurisdiction where it is unlawful for such person to make such offer or solicitation. The distribution of this prospectus and the offer and sale of the notes in certain jurisdictions is restricted by law. Persons into whose possession this prospectus may come are required by the Issuer, LUKOIL and the Managers to inform themselves about and to observe such restrictions. This prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the notes and the distribution of this prospectus is set out under “*Subscription and Sale*”.

Except as otherwise stated in “*Subscription and Sale*”, no action is being taken to permit a public offering of the notes or the distribution of this prospectus (in any form) in any jurisdiction where action would be required for such purposes.

Applications have been made to the FCA for the notes to be admitted to the Official List and to the London Stock Exchange for such notes to be admitted to trading on the Market. Admission to the Official List together with admission to trading on the Market constitutes listing on a stock exchange.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT (“**REGULATION S**”)). THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATIONS AND BY THE MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO “QUALIFIED INSTITUTIONAL BUYERS” (“**QIBS**”) (AS DEFINED IN RULE 144A(A)(1) UNDER THE SECURITIES ACT) WHICH CAN MAKE CERTAIN REPRESENTATIONS AS DESCRIBED IN “*TRANSFER RESTRICTIONS*” AND “*SUBSCRIPTION AND SALE*” IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) (FOR A DESCRIPTION OF THESE AND FURTHER RESTRICTIONS SEE “*TRANSFER RESTRICTIONS*” AND “*SUBSCRIPTION AND SALE*”). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

THE NOTES WILL BE SUBJECT TO CERTAIN RESTRICTIONS ON OFFERS, SALES AND TRANSFERS (SEE “*TERMS AND CONDITIONS OF THE NOTES*”, “*NOTICE TO INVESTORS*”, “*TRANSFER RESTRICTIONS*” AND “*SUBSCRIPTION AND SALE*”).

MiFID II product governance / Professional investors and Eligible Counterparties (“ECPs”) only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the notes has led to the conclusion that: (i) the target market for the notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

Prohibition of sales to EEA retail investors – The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore)(the “**SFA**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

The notes offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (the “**Regulation S Notes**”) and the notes offered and resold within the United States only to QIBs in reliance on Rule 144A (the “**Rule 144A Notes**”) will be represented initially by two global certificates in registered form (respectively, the “**Regulation S Global Note**” and the “**Rule 144A Global Note**” and, together, the “**Global Notes**”).

The Regulation S Global Note will be registered in the name of Citivic Nominees Ltd. as nominee for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”), and the Rule 144A Global Note will be registered in the name of Cede & Co. as nominee for The Depository Trust Company (“**DTC**”). The Regulation S Global Note will be held by Citibank, N.A., London Branch as common depository for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Note will be held by Citibank, N.A., London Branch as custodian for DTC. Interests of participants in Euroclear, Clearstream, Luxembourg and DTC in the notes will be represented by book entries on the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be. It is expected that delivery of the Global Notes will be made on or about 6 May 2020 (the “**Closing Date**”).

STABILISATION

In connection with the issue of the notes, Citigroup Global Markets Limited (the “**Stabilising Manager**”) or any person acting on behalf of the Stabilising Manager may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, stabilisation action may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the notes and 60 days after the date of the allotment of the notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules. Any stabilisation action, if commenced, shall be effected outside the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, our financial information set forth in this prospectus has been extracted without material adjustment from our audited consolidated financial statements as of and for the years ended 31 December 2019, 2018 and 2017, which are included elsewhere in this prospectus. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Non-IFRS Financial Measures (Unaudited)

This prospectus contains certain measures that are not defined under IFRS, including adjusted EBITDA, free cash flow and free cash flow before changes in working capital.

We define adjusted EBITDA as profit for the year attributable to PJSC “LUKOIL” shareholders before profit for the year attributable to non-controlling interests, income tax expense, finance income, finance costs, foreign exchange (gain) loss, equity share in income of affiliates, other expenses (income) and depreciation, depletion and amortisation. We believe that adjusted EBITDA provides useful information to investors because this is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. We believe that adjusted EBITDA allows investors to evaluate and compare our periodic operating performance. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-IFRS Items Reconciliation*”. Adjusted EBITDA is a non-IFRS measure and should not be considered in isolation as an alternative to profit or any other measure of performance under IFRS.

We define free cash flow as cash flow from operating activities less capital expenditures. We define free cash flow before changes in working capital as cash flow from operating activities less capital expenditures less changes in operating assets and liabilities, as set out in our consolidated statement of cash flows. We believe that free cash flow and free cash flow before working capital provide useful measures of our ability to generate cash and allow investors to evaluate and compare our liquidity. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-IFRS Items Reconciliation*”. Free cash flow and free cash flow before working capital are non-IFRS measures and should not be considered in isolation as alternatives to cash flow from operating activities or any other measure of liquidity under IFRS.

References to “LUKOIL”

In this prospectus, unless otherwise stated or otherwise required by the context, the following terms apply with respect to these entities:

- “LUKOIL” and the “Guarantor” refer only to PJSC “LUKOIL”, a public joint stock company organised under the laws of the Russian Federation;
- “LUKOIL Securities B.V.” and the “Issuer” refer only to LUKOIL Securities B.V., a private company with limited liability incorporated under the laws of The Netherlands and a direct wholly-owned subsidiary of LUKOIL;
- The terms “we”, “us” and “our”, along with the terms the “Group” and “our Group”, refer, collectively, to LUKOIL and its subsidiaries, including LUKOIL Securities B.V.; and
- References to “our charter” relate only to LUKOIL’s charter.

References to the Notes and Guarantee

Unless otherwise stated, references to the “notes” are to the US\$1,500,000,000 3.875% Notes due 2030 issued by LUKOIL Securities B.V. References to the “guarantee” are to LUKOIL’s guarantee of the notes.

Currency

In this prospectus, the following currency terms are used:

- “RUB” or “ruble” means the lawful currency of the Russian Federation;

- “U.S. dollar”, “US\$” or “\$” means the lawful currency of the United States of America (the United States or U.S.); and
- “€”, “EUR” or “euro” means the single currency of the participating Member States in the third stage of the European and Economic Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time.

Rounding

Certain amounts and percentages that appear in this prospectus have been subject to rounding adjustments. Accordingly, total amounts presented in certain tables may not equal the sum of amounts being added due to rounding.

Additional Definitions

A glossary of certain other defined terms that are used in this prospectus can be found on page 207.

Currency Presentation and Exchange Rate Information

The following table sets forth, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the CBR. The rates below may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus. Our inclusion of the exchange rates and the translations is not meant to suggest that the ruble amounts actually represent such U.S. dollar amounts. The exchange rate of 61.91 RUB per U.S. dollar (as of 31 December 2019) was used for convenience translation throughout the prospectus.

	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End⁽²⁾</u>
Year ended 31 December			<i>(RUB per U.S. dollar)</i>	
2015	72.88	49.18	60.96	72.88
2016	83.59	60.27	67.03	60.66
2017	60.75	55.85	58.30	57.60
2018	69.97	55.67	62.91	69.47
2019	67.19	61.72	64.62	61.91
Month ended	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End⁽²⁾</u>
			<i>(RUB per U.S. dollar)</i>	
October 2019	65.44	63.63	64.37	63.87
November 2019	64.21	63.25	63.87	64.08
December 2019	64.41	61.72	62.93	61.91
January 2020	63.04	60.95	61.81	63.04
February 2020	66.99	62.80	63.97	66.99
March 2020	80.88	66.08	73.72	77.73
April 2020 ⁽³⁾	77.04	73.32	74.87	74.72

(1) The average rates are calculated as the average of the daily exchange rates on each business day and on each non-business day (which rate, in each case, is announced by the CBR on the previous business day).

(2) The period end rates are quoted for the last business day of the relevant period.

(3) Data up to and including 25 April 2020.

No representation is made that the ruble or U.S. dollar amounts in this prospectus could have been converted into U.S. dollars or rubles, as the case may be, at any particular rate or at all. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may inflate their value relative to the ruble. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We face foreign exchange and inflation risks that could materially adversely affect our business, financial condition and results of operations*” for a description of certain risks related to foreign exchange rates and inflation.

The exchange rate between the ruble and the U.S. dollar has fluctuated during the periods covered by the financial statements. The CBR rate on 25 April 2020 was RUB 74.72 = US\$1.00.

PRESENTATION OF RESERVES AND RESOURCES

This prospectus contains information concerning hydrocarbon reserves estimated by LUKOIL that has been derived or extracted from the reports audited by Miller and Lents, Ltd. (“**Miller and Lents**”), our independent reservoir engineers, dated as of 31 December 2019, 2018 and 2017. These reserves were estimated in accordance with the definitions contained in the U.S. Securities and Exchange Commission (“**SEC**”) Rule 4-10(a) of Regulation S-X at that time (“**SEC standards**”).

For each of the years ended 31 December 2019, 2018 and 2017, Miller and Lents audited LUKOIL’s internal estimates of hydrocarbon reserves in accordance with SEC standards. We have calculated our proved reserves under SEC standards assuming for our Russian fields only that production licences would be renewed and the fields would be produced until the economic limit of production is reached. In making this determination, Miller and Lents accepted our representations that our projects meet the “commitment to develop” and “market availability” criteria under SEC standards.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. These estimates necessarily depend upon a number of variable factors and assumptions, many of which are beyond our control. Due to the inherent uncertainties and the necessarily limited nature of reservoir data and the inherently imprecise nature of reserves estimates the reserves amounts disclosed in this prospectus may change as additional information becomes available. You should not place undue reliance on the ability of the reserves estimated by LUKOIL to predict actual reserves or on comparisons of similar reports concerning companies established in other economic systems.

In estimating our reserves as of 31 December 2019, 2018 and 2017 under SEC standards, we have included significant quantities of crude oil and gas that we expect to produce after the expiry dates of certain of our current production licences in the Russian Federation. We believe that our Russian licences will be extended to permit production subsequent to their current expiry dates consistent with certain amendments to the Russian subsoil law enacted in 2004, which provided that new licences be granted for a time equal to the economic life of the relevant field. Even though most of our licences were issued prior to the enactment of this legislation, as long as we meet certain conditions, such as compliance with approved development programmes, we believe that each of our licences issued prior to this legislation will be extended, upon expiration, for the economic life of the relevant fields. We intend to extend the licence periods for any property that is profitable (i.e., producing above the economic limit of the property). To date, none of our licence renewal applications have been denied. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*” and “*Business—Exploration and Production—Licences*” for more information on our licences in Russia.

Our estimated reserves totals included in this prospectus are presented in barrels (for crude oil) and cubic feet (for natural gas). However, like many other Russian and European oil companies, we use the metric tonne and the cubic metre as the standard unit of measurement for quantities of crude oil and natural gas, respectively, which we produce and sell. For convenience, amounts of crude oil have been translated from tonnes into barrels (or from barrels into tonnes in respect of reserve amounts) and amounts of natural gas have been translated from cubic metres into cubic feet (or from cubic feet into cubic metres in respect of reserve amounts). Translations of barrels to tonnes were made at the rate of 7.33 barrels per tonne (other than in respect of crude oil production amounts, where such translations were made using conversion rates characterising the density of oil from each of the relevant oil fields, and hydrocarbon extraction expenses per barrel, which were calculated using the actual production volumes). Translations of cubic feet to cubic metres were made at the rate of 35.31 bcf per bcm. Translations of barrels of crude oil into boe were made at the rate of 1 barrel per boe and of cubic feet of natural gas into boe at the rate of 6 bcf per 1 mmboe.

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NOTICE TO INVESTORS

Due to the restrictions on transfer of the notes, purchasers of the notes are advised to consult legal counsel prior to making any purchases of the notes or reoffering, reselling, pledging or otherwise transferring any of the notes.

AVAILABLE INFORMATION

Each of the Issuer and LUKOIL has agreed that, for so long as any notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or prospective purchaser designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or the Trustee (as defined in “*Terms and Conditions of the Notes*”), the information required to be provided by Rule 144A(d)(4) under the Securities Act. This covenant is intended to be for the benefit of the holders and the prospective purchasers designated by such holders, from time to time, of such restricted securities.

LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES

LUKOIL is a public joint stock company organised under the laws of the Russian Federation and most of its directors and executive officers reside in Russia. The Issuer is a company organised under the laws of The Netherlands and its directors reside in The Netherlands. Most of the assets of LUKOIL and of such persons are located outside of the United States and the United Kingdom. Each of the Issuer and LUKOIL has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on LUKOIL, the Issuer or their respective directors and executive officers or enforce judgments obtained in the United States or the United Kingdom against LUKOIL, the Issuer or their respective directors and executive officers.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia generally only if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered; and/or
- a federal law of the Russian Federation provided for the recognition and enforcement of foreign court judgments; and/or
- on the basis of reciprocity, if courts of the country where the foreign judgment was rendered have previously enforced judgments issued by Russian courts.

No such federal law has been passed and no such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the United States or the United Kingdom and the Russian Federation. However, we are aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds. Consequently, it may be impossible to enforce judgments of U.S. courts or English courts against LUKOIL or the Issuer and their officers or directors in the courts of the Russian Federation, including judgments predicated upon the civil liability provisions of U.S. federal securities laws or any state or territory within the United States or English law, when they are brought in original actions or in actions to enforce judgments of U.S. courts or English courts, without re-examination of the issues in the Russian Federation. Moreover, a court of the Russian Federation may refuse or limit enforcement of a foreign judgment, *inter alia*, on public policy grounds (see “*Risk Factors—Risks Relating to the Russian Federation*”).

The notes and the guarantee will be governed by English law and will provide for disputes, controversies and causes of action brought by parties thereto against us to be settled by arbitration in accordance with the LCIA Rules. The Russian Federation is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, an arbitral award from an arbitral tribunal in the United Kingdom and United States would generally be recognised and enforced in the Russian

Federation on the basis of the rules of the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the limited experience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the difficulties of existing mechanisms for enforcement of such awards in the Russian Federation.

In addition, any arbitral award may be limited, in particular, by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitration Procedure Code of the Russian Federation also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are substantially similar to those provided by the New York Convention. The Arbitration Procedure Code and other Russian procedural laws could change and other grounds for Russian courts to refuse recognition and enforcement of foreign arbitral awards could arise.

Under current Russian law, state duty may be payable upon the initiation of any action or proceeding (including any proceeding for enforcement) arising out of the notes or the guarantee in any court of the Russian Federation.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are forward-looking statements. Words such as “aims”, “anticipates”, “believes”, “continues”, “could”, “estimates”, “expects”, “future”, “intends”, “likely”, “may”, “plans”, “seeks”, “should”, “target”, “will” and similar expressions, including the negative of these terms, are intended to identify forward-looking statements, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings “Overview”, “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business” and “Additional Information Regarding the Company”. We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

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

Forward-looking statements that we may make from time to time (but that are not included in this prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- global and domestic political and economic conditions, including public health crises and threats, such as coronavirus (COVID-19), as well as those relating to the current political and economic crisis in Ukraine, Crimea’s accession to the Russian Federation and other disputes involving Russia;
- inflation, interest rate and exchange rate fluctuations;
- the prices of crude oil, gas and refined products;
- the effects of, and changes in, government policies in Russia and the other jurisdictions in which we operate;
- the effects of sanctions and export controls;
- the inherent uncertainties in estimating our reserves of crude oil, natural gas and gas condensate;
- the effects of competition in the geographic and business areas in which we operate;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share for our products and control expenses;
- acquisitions or divestitures;
- operational catastrophes, cyber incidents and natural disasters;
- technological changes;
- the effects of international political events; and
- our success at managing the risks of the aforementioned factors.

This list of important factors and the other factors described in this prospectus (including in “*Risk Factors*”) are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our future results. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they were made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

OVERVIEW

This overview contains basic information about us, our industry and the offering. It should be read in conjunction with, and is qualified in its entirety by reference to, the entire prospectus, our consolidated financial statements and notes thereto and the unaudited supplementary information on oil and gas exploration and production activities therein included elsewhere in this prospectus. Investing in the notes involves risk. The information set out under “Risk Factors” should be carefully considered. Certain statements in this prospectus include forward-looking statements, which also involve risks and uncertainties, as described under “Forward-Looking Statements”.

Business

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). We carry out geological exploration work in 10 countries and have proved hydrocarbon reserves in eight countries and production in seven countries. Most of our hydrocarbon reserves are conventional, which results in a low cost base for hydrocarbon reserve development and production. Furthermore, we have well-developed and diversified downstream assets located in Russia and abroad.

Our revenues and profit attributable to LUKOIL shareholders in 2019 were RUB 7,841 billion and RUB 640 billion, respectively, compared to RUB 8,036 billion and 619 billion in 2018, respectively.

As of 31 December 2019, as audited by Miller and Lents, our proved hydrocarbon reserves were 15,769 mmboe, including 12,015 mmbbls (1,639 million tonnes) of crude oil and 22,527 bcf (3,754 mmboe) of gas. As of the same date, our probable hydrocarbon reserves were 6,217 mmboe, including 4,671 mmbbls (637 million tonnes) of crude oil and 9,275 bcf (1,546 mmboe) of gas. For more information about these estimates, see “*Presentation of Reserves and Resources*”.

We are involved in geological exploration activities in Russia, Iraq, Egypt, Mexico, Norway, Romania, Kazakhstan and the continental shelf of West Africa (Cameroon, Ghana and Nigeria).

We currently produce crude oil in Russia, Azerbaijan (gas condensate), Egypt, Iraq, Kazakhstan, Uzbekistan (gas condensate) and the Republic of Congo. In 2019, we produced (including our share in equity affiliates) 646.3 mmbbls (87.5 million tonnes) of crude oil, including 604.7 mmbbls (82.1 million tonnes) in Russia and 41.6 mmbbls (5.4 million tonnes) internationally. Our domestic crude oil production accounted for 14.6% of all Russian crude oil production for 2019, according to CDU TEK.

We currently produce gas in Russia, Azerbaijan, Kazakhstan, Uzbekistan and the Republic of Congo. In 2019, we produced (including our share in equity affiliates) 1,237.6 bcf (206.3 mmboe) of gas, including 628.5 bcf (104.8 mmboe) in Russia and 609.1 bcf (101.5 mmboe) internationally.

We own and operate oil refineries in Russia, Bulgaria, Italy and Romania, and we have a 45% interest in the Zeeland refinery in The Netherlands. In 2019, we refined 503.9 mmbbls (68.7 million tonnes) of hydrocarbon feedstock at our refineries, including 323.6 mmbbls (44.1 million tonnes) at our Russian refineries and 180.3 mmbbls (24.6 million tonnes) at our international refineries (including our share in the Zeeland refinery). We also refined 32.7 mmbbls (4.5 million tonnes) of crude oil under arrangements with international third-party refineries.

We are also involved in gas processing, petrochemical and power generation businesses in Russia and internationally.

In 2019, we sold 656.7 mmbbls (89.6 million tonnes) of crude oil and 123.3 million tonnes of refined and petrochemical products. Our volumes of international sales of crude oil and volumes of international sales of refined and petrochemical products accounted for 98.9% and 79.6% of our total sales volumes of crude oil and total sales volumes of refined and petrochemical products, respectively. A substantial part of our international sales relate to our global trading operations. In 2019, we acquired 557.9 mmbbls (76.1 million tonnes) of crude oil and 55.3 million tonnes of refined products and petrochemical products for refining, trading and marketing purposes.

As of 31 December 2019, we owned, leased and franchised 5,044 retail filling stations, including 2,469 in Russia. In 2019, we sold 9.9 million tonnes of refined products through our retail network in Russia and 4.2 million tonnes through our retail network outside Russia. We are also actively involved in end-customer sales of jet and bunker fuel and lubricants in Russia and internationally.

Russian Upstream Operations

As of 31 December 2019, 95.3% of our proved crude oil reserves and 73.0% of our proved gas reserves were located in Russia, with West Siberia representing 50.5% and 56.3% of our total proved crude oil and gas reserves, respectively. West Siberia is the core traditional region of our exploration and production activities in Russia. Among other important regions are Timan-Pechora, Volga (including the North Caspian area) and Ural.

In 2019, our operations in Russia accounted for 93.8% and 50.8% of our aggregate crude oil and gas production, respectively. Our subsidiaries and affiliates carry out hydrocarbon development at 469 fields in Russia.

In 2019, we started production at 13 new fields, including at offshore oil field D41 in the Baltic Sea and South-Messoyakhskoye gas condensate field in the Bolshekhetskaya depression in West Siberia.

Moreover, in 2019, we won a number of tenders for subsoil use licences, including licences located in new regions: the Republic of Bashkortostan, the Saratov region, and the Orenburg region.

In addition, in February 2019, we extended our reserve base by acquiring a 100% interest in LLC Yuzhno-Sardakovskoye which owns subsoil use licences for the Yuzhno-Sardakovsky and the Yanchinsky oil fields. As of 31 December 2019, these fields had proved crude oil reserves of 8.3 mmbbl (1.1 million tonnes) and probable crude oil reserves of 13.5 mmbbl (1.8 million tonnes). These fields are located in close proximity to LUKOIL-West Siberia's infrastructure.

In November 2019, we also acquired a 100% interest in LLC Talinskoye which owns a subsoil use licence for the Zapadno-Talinsky field in the Khanty-Mansiysk Autonomous District-Yugra. As of 31 December 2019, the field had proved crude oil reserves of 9.3 mmbbl (1.3 million tonnes) and probable crude oil reserves of 32.7 mmbbl (4.5 million tonnes). The oil field is located in close proximity to LUKOIL-West Siberia's infrastructure.

International Upstream Operations

As of 31 December 2019, our international upstream assets accounted for 4.7% and 27.0% of our proved crude oil and gas reserves, respectively, with Iraq and Kazakhstan representing 83.0% of our international crude oil reserves and Uzbekistan representing 67.7% of our international gas reserves. Most of our international exploration efforts in 2019 were concentrated at the Block-10 in Iraq, where we made a significant discovery in 2016.

In September 2019, we completed the acquisition of a 25% interest in the Marine XII project in the Republic of Congo from New Age M12 Holdings Limited. The Marine XII block covers five discovered fields across an area of 571 sq. km and is located on the continental shelf of the Republic of Congo, 30 km from the shore. Sea depth ranges from 20 to 90 metres in the area where the block is located. Other parties to the project are Eni (65%, operator) and the Société Nationale des Pétroles du Congo (10%).

In October 2019, we acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National Oil Company. The Concession covers the development of previously undeveloped deposits of gas, oil and gas condensate as part of nine shallow fields in the Arabian Gulf west of Abu Dhabi. Sea depth goes down to 24 metres in the area where the fields are located.

In 2019, our international upstream assets (including our share in equity affiliates) accounted for 6.2% and 49.2% of our crude oil and gas production, respectively.

Oil Refining

The total refining capacity of our refineries as of 31 December 2019 amounted to 609.9 mmbbls (83.2 million tonnes) per year, including 389.2 mmbbls (53.1 million tonnes) per year in Russia and 220.7 mmbbls (30.1 million tonnes) per year outside Russia (including our 45% interest in the Zeeland refinery).

In Russia, we own and operate four refineries, which are located in Perm, Volgograd, Ukhta and Kstovo (Nizhny Novgorod region), as well as two mini-refineries in West Siberia. The throughput at our Russian refineries was 323.6 mmbbls (44.1 million tonnes) in 2019. We have invested substantial capital to upgrade and expand our Russian refineries. In 2016, we successfully completed a major multi-year refinery modernisation programme within our expected timeframe and budget and, since then, have continued to work on selective projects in Russia to improve our product slate. In 2018, we started the construction of a delayed coker unit and an isomerisation unit at our refinery in Kstovo (Nizhny Novgorod). We are also building a deasphaltizing unit at our refinery in Volgograd to increase production volumes and expand product range of lubricants.

Outside Russia, we own and operate refineries in Bulgaria, Romania and Italy and also own a 45% stake in the Zeeland refinery in The Netherlands. The throughput at our international refineries was 180.3 mmbbls (24.6 million tonnes) in 2019.

Petrochemicals

We own two petrochemical plants in southern Russia (Stavrolen and Saratovorgsintez). We also produce petrochemicals at our Burgas refinery in Bulgaria and ISAB refinery in Italy.

In 2019, we started design works for constructing a polypropylene production complex at our refinery in Kstovo (Nizhny Novgorod). We also started design works for constructing a polypropylene production unit at our refinery in Bulgaria. Total combined output of chemicals from our petrochemical plants (excluding petrochemicals produced at our refineries) was 1.1 million tonnes in 2019, and our products were sold in Russia and exported to more than 30 countries.

Lubricants

We produce lubricants at eight of our own sites, within two joint ventures and at 25 contracted plants. In 2019, our total lubricant production (full cycle) and lubricant blending at all of our facilities was 963 thousand tonnes and 138 thousand tonnes, respectively. We marketed lubricants and greases in over 100 countries.

In 2019, we launched a lubricants blending plant in Kazakhstan with a capacity of 100 thousand tonnes per year.

Gas Processing

In Russia, we own and operate five gas processing facilities: the Lokosovsky plant in West Siberia, the Korobkovsky plant in the Volgograd region, the Usinsk plant in Timan-Pechora, gas processing facilities at the Perm refinery in the Perm region and a gas processing unit at the Stavrolen oil and gas chemical complex in the Stavropol Territory. These gas processing facilities have a combined capacity of 240.5 bcf (40.1 mmmboe) of gas feedstock and 13.6 mmmboe (1.9 million tonnes) of natural gas liquids per year.

In 2019, our gas processing facilities processed 149.7 bcf (25.0 mmmboe) of gas feedstock and produced 0.5 million tonnes of natural gas liquids and 2.5 mmcm of dry gas.

Crude Oil and Refined Product Sales

Crude oil that is not processed at our Russian refineries is mainly exported. Our international sales in addition to exports from Russia include sales outside Russia of crude oil produced by our international projects, as well as sales of procured crude oil as part of our trading activity.

In 2019, we sold 6.9 mmbbls (0.9 million tonnes) of crude oil in Russia, or 1.1% of our total crude oil sales, and 649.8 mmbbls (88.7 million tonnes) of crude oil internationally, or 98.9% of our total crude oil sales. A substantial part of our international crude oil sales is represented by our trading activities.

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil, lubricants and petrochemicals. In 2019, we sold a total of 123.3 million tonnes of refined and petrochemical products through wholesale and retail channels, including 25.1 million tonnes, or 20.4%, in the domestic market, and 98.2 million tonnes, or 79.6%, internationally. A substantial part of our international refined products sales relates to our global trading operations. In 2019, we acquired 76.1 million tonnes of crude oil and 55.3 million tonnes of refined products and petrochemical products for refining, trading and marketing purposes.

Retail Marketing

As of 31 December 2019, we owned, leased and franchised 5,044 retail filling stations, consisting of 2,469 in Russia, 314 in the CIS (excluding Russia) and Georgia, 2,027 in Europe (including Balkan countries and Turkey) and 234 in the United States. The above total number of filling stations includes 1,083 multi-fuel filling stations (also selling LPG or compressed gas), consisting of 119 in Russian and 964 outside Russia. Most of the stations operate under the LUKOIL brand.

As part of our optimisation programme in relation to our retail business, in 2018, we completed a restructuring of the management system for our Russian filling station network by consolidating eight managing companies into four to improve control and cut costs.

In 2019, we sold 9.9 million tonnes of refined products through our retail network in Russia and 4.2 million tonnes through our retail network outside Russia.

Power Generation

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally.

As of 31 December 2019, our commercial power generation had installed electric capacity of 4.5 GW and installed heating capacity of 8.1 Gcal/hour. We also had on-site supporting electric power capacity of 1.9 GW. Our total commercial output of electrical energy was 18.3 billion kWh in 2019. We also produced 7.5 billion kWh at our on-site supporting facilities. Our total output of heat energy was approximately 10.1 million Gcal in 2019.

Other Operations

We divested our diamond business in May 2017 with the sale of our 100% interest in a company developing the Vladimir Grib diamond field in the Arkhangelsk region of Russia for the ruble equivalent of \$1.45 billion.

Competitive strengths

We believe the following competitive strengths support our sustainable development and differentiate us from our Russian and international peers:

Large conventional reserve base

As of 31 December 2019, our proved hydrocarbon reserves were 15.8 billion boe, ensuring reserve life of 18 years based on our annual production for 2019. Our subsidiaries and associates hold over 500 licences in Russia and participate in a number of upstream projects outside Russia. Most of our reserves and resources are attributed to the conventional category with approximately 51.9% of our reserves located in West Siberia, which is our core production region with well-developed infrastructure. The high concentration and conventional nature of our reserves enable us to achieve low development and lifting costs. We have a number of growth projects located in the West Siberia, North Caspian, Timan-Pechora and Perm regions, as well as outside Russia, including Iraq, Kazakhstan and Azerbaijan.

Sizable greenfields

We continue to expand commercial production at the offshore oil fields in the North Caspian, the Imilorskoye and Vinogradov tight oil fields in West Siberia and the Yaregskoye and Usinskoye oil fields, our largest heavy oil fields in Russia. The high productivity of these assets and tax incentives compensate for high capital expenditures and support the fast ramp-up of daily production rates.

Technological leadership and extensive offshore expertise

In our operations we apply modern technologies to achieve higher efficiency. We are drilling sophisticated wells at our fields and applying advanced enhanced oil recovery methods. We are actively involved in development of hard-to-recover oil reserves, which in some cases require unique technological solutions. We are pioneers in Russian offshore operations with a successful track record of safe and efficient work in the Baltic and Caspian Seas. We believe that our refining segment is one of the most advanced in Russia. In addition, we consider our technological expertise to be efficiently managed and developed by our specialised research and development institutes.

High resilience to low oil price environment

Progressive tax rates under the standard tax regime and correlation between the oil price and ruble to U.S. dollar exchange rate result in low sensitivity of our upstream margin in Russia to oil price fluctuations under the standard tax regime. This contributes to a high resilience of our Russian upstream operations to low oil price environment.

Modernised refineries

In 2016, we completed our major refinery modernisation programme that lasted more than five years. As a result, we enhanced our product slate in Russia, where we produce approximately two-thirds of our refined products. In 2018, we launched several selective projects to further enhance our product slate, including a construction of a

delayed coker unit and isomerisation unit at our refinery in Nizhny Novgorod. We consider our refining portfolio to be among the best in Russia, which results in higher-than-average refining margins.

High level of vertical integration

We operate a full chain of vertically integrated businesses from exploration and production of crude oil and gas to marketing and distribution of petroleum and gas products to end consumers. More than three quarters of the oil that we produce is refined at our eight refineries in Russia and Europe. We sell approximately one-third of the refined products that we produce through our small wholesale channels and our retail network of more than 5,000 filling stations around the world, as well as through our aircraft and ship refuelling companies. The remaining two-thirds are primarily sold through our trading company LITASCO, which is active in over 90 countries. Our gas production business also benefits from the vertical integration with our gas processing and petrochemicals facilities, as well as our power generation and distribution facilities.

We also own substantial transportation infrastructure that enables us to deliver our crude oil, gas and petroleum products to markets more efficiently, preserving the original quality and saving on transportation expenses.

Our well-developed downstream segment helps us to enhance our profitability per barrel of production in the upstream segment and our resilience in the volatile macroeconomic environment.

Flexible investment programme

With a flexible investment programme, we can better maintain free cash flow generation and a solid financial position in difficult macroeconomic conditions without jeopardising our strategic targets and debt servicing. Due to a well-balanced asset portfolio, strict capital discipline and ruble devaluation, we have managed to generate positive free cash flow (net cash provided by operating activities less capital expenditures) in every year for the last five years despite high oil price volatility.

Solid financial position

We believe that we have established a solid financial track record and financial position. We have retained investment grade credit ratings since 2008, despite market turbulence and sovereign rating downgrades in Russia. Notwithstanding relatively low oil prices, our cash and cash equivalents amounted to RUB 516.0 billion as of 31 December 2019. Strict financial discipline, a strong balance sheet and low leverage relative to other global energy companies help to support sustainable development under various oil price scenarios.

Experienced management team

We have one of the most experienced executive management teams in the industry led by our founder and President, Vagit Alekperov. We were founded in 1992 by our key management and became the first vertically integrated oil company in post-Soviet Russia. Due to the extensive experience of our management, we were able to build effective relationships with key market players in Russia and internationally. Our management focuses on developing competitive advantages across all areas of our business to achieve a leading position among our peers.

Sustainable development

We aim to conduct our business in a sustainable way, seeking to strike a balance between socio-economic development and environmental sustainability. We share the principles of the United Nations Global Compact and the Social Charter of Russian Business, which is reflected in our efforts to promote sustainable economic growth and corporate social responsibility.

We acknowledge the importance of the global climate agenda and work responsibly on reducing GHG emissions through, among other things, increasing energy efficiency, reducing flaring and developing renewable power generation. As of 2019, we cut Scope 1 GHG emissions at our Russia-based enterprises by 3.3%, to our 2016 level.

We are an active supporter of social projects across the regions of our operations. We focus on social investments in sports, support for indigenous and minority peoples in northern Russia and the preservation of cultural and historic heritage.

Strategy

Strategic Objectives

Our strategy aims at creating shareholder value through pursuing attractive oil and gas investment opportunities in Russia and internationally, rigorous cost control and constant improvement of our efficiency and profitability, including through the application of sophisticated technologies. Adherence to key sustainability principles is an integral part of our strategy.

Our key strategic objectives include the following:

- *Efficient reserve replacement.* We seek to achieve a 100% proved reserve replacement ratio at competitive cost and with balanced risk, organically and through acquisitions.
- *Long-term sustainable growth of hydrocarbon production.* We aim to manage our upstream portfolio to maintain balance and diversification across different regions and types of reserves, securing long-term sustainable organic hydrocarbon production growth with a focus on value.
- *Focus on high-margin upstream projects and efficiency.* We seek to prioritise investments in upstream projects with the highest efficiency. We intend to accelerate development of high-margin greenfield projects and brownfield projects located close to existing infrastructure, with relatively low cost per barrel. We also intend to continue increasing our efficiency in upstream projects by optimising our investments and lifting costs and applying advanced technologies at our brownfield projects in order to accelerate production from our existing reserve base, enhance the recovery factor and convert contingent resources into proved reserves.
- *Apply advanced technologies in upstream and downstream.* We plan to continue developing our technological expertise (including drilling, enhanced oil recovery, offshore, refining and petrochemical technologies) to achieve higher operational efficiencies and enhance our competitive advantages.
- *Maintain advanced position in downstream segment in Russia.* With the completion of our major refinery upgrade programme in 2016, we believe our refining segment is one of the most advanced in Russia. We seek to maintain our advanced position in this segment and focus on increasing efficiency of our refineries, reducing operating costs and increasing the light product yield. We also aim to maximise retail sales of the oil products produced at our refineries in the adjacent regions with high sales potential.
- *Maximise positive effect of vertical integration.* We plan to develop the most dynamic and profitable businesses in our vertically integrated production chain to increase our profitability per barrel of hydrocarbon production and reduce our sensitivity to adverse macroeconomic changes.
- *Secure financial stability.* We strive to ensure financial stability in any macroeconomic environment through strict financial discipline, a flexible investment programme and low leverage.
- *Adhere to high corporate governance standards.* We intend to continue improving our corporate governance system based on international best practices. We believe that a top-quality management team and optimal corporate structure will enable us to maximise our efficiency and create shareholder value.
- *Adhere to key sustainability principles.* We aim to support long-term economic growth, social stability, prosperity and progress in the regions where we operate, as well as caring for the environment and ensuring sustainable use of natural resources and limiting climate change. We strive to minimise our environmental impact and to meet or exceed international safety standards.

Risk Factors

Investing in the notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the notes, see “*Risk Factors*” and “*Forward-Looking Statements*”. You should carefully consider the risks and other information contained in this prospectus, although you should note that the risks described in this prospectus are not the only risks we face and there may be additional risks that we currently consider not to be material or of which we are not presently aware.

- Risks relating to our business and the oil and gas industry, including that: (a) sanctions, export controls and other related actions and events, as well as political and economic uncertainty, may continue to

adversely impact our business, financial condition, results of operations and prospects; (b) the naming of LUKOIL on certain sanctions and export control lists by the United States, and the imposition of export controls in relation to the Russian energy sector by the European Union and other countries, may adversely affect our business, financial condition, results of operations and prospects; (c) additional sanctions imposed by the United States and the European Union, and other related actions and developments may adversely affect our business, financial condition, results of operations and prospects; (d) a substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations; (e) public health crises and threats, including the coronavirus (COVID-19) outbreak, could have a material adverse effect on our business, financial condition and results of operations (f) our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations; (g) we depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge; (h) we face several risks in connection with the implementation of our strategy to develop our natural gas operations; (i) our international subsoil use rights may be suspended, terminated, modified or revoked prior to their expiration; (j) our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses; and (k) if we fail to acquire or find and develop additional reserves or to conduct successful development activities, our reserves and production will decline materially from their current levels.

- Risks relating to business operations in emerging markets, including that: (a) emerging markets, such as Russia, are subject to greater risks than more developed markets, including significant political, legal and economic risks; and (b) credit risks of our customers in emerging markets are higher than those of our customers in developed countries.
- Risks relating to the Russian Federation, including that: (a) the Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty; (b) Russian anti-offshore policy may have an adverse impact on the Group’s business, financial condition and results of operations; (c) instability in the Russian economy could materially adversely affect our business, financial condition and results of operations; (d) political and governmental instability could materially adversely affect our business, financial condition and results of operations; (e) the involvement of the Russian Federation in domestic or foreign conflicts could adversely affect our business, financial condition and results of operations; and (f) the Russian banking system is still developing, and another banking crisis in Russia or international sanctions could place severe liquidity constraints on our business, materially adversely affecting our business, financial condition and results of operations.
- Risks relating to the offering and the notes, including that: (a) the United Kingdom’s withdrawal from the European Union may adversely affect the market value of the notes and/or limit investors’ ability to resell the notes; (b) the notes may not have an active trading market, which may have an impact on the value of the notes; (c) the notes are subject to restrictions on transfer, which may affect the value of the notes; (d) the Issuer can redeem the notes at its option, which may affect the value of the notes; and (e) the protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the notes.

Credit Ratings

We are currently rated by three rating agencies: Moody’s Investors Service Ltd. (“**Moody’s**”), Fitch Ratings Limited (“**Fitch**”) and Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”). Our ratings as of the date of this prospectus are as follows:

<u>Moody’s</u>	<u>Fitch</u>	<u>Standard & Poor’s</u>
Baa2	BBB+	BBB
OutlookStable	OutlookStable	Outlook.....Stable

The notes are expected to be assigned a rating of BBB+ by Fitch and BBB by Standard & Poor’s.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date

of the notes. The ratings do not address the marketability of the notes or any market price. Any change in the credit ratings of the notes or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the notes. We recommend that you analyse the significance of each rating independently from any other rating.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under Regulation (“**EC**”) No 1060/2009 (as amended, the “**CRA Regulation**”) unless (i) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused, (ii) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA but certified under the CRA Regulation. For the purposes of the credit ratings referred to in this prospectus, each of Moody’s, Fitch and Standard & Poor’s is established in the EEA and is registered under the CRA Regulation. As such, each of Moody’s, Fitch and Standard & Poor’s is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

OVERVIEW OF THE OFFERING

The following overview contains basic information about the notes and the guarantee and is not intended to be complete. For a more complete understanding of the notes and the guarantee, please refer to “*Terms and Conditions of the Notes*”.

Issuer	LUKOIL Securities B.V.
Guarantor	PJSC “LUKOIL”
Notes	US\$1,500,000,000 aggregate principal amount of 3.875% notes due 2030
Issue Price	100%
Closing Date	6 May 2020
Maturity Date	Unless previously redeemed, or purchased and cancelled, the notes will be redeemed at their principal amount on 6 May 2030.
Interest	The notes bear interest at the rate of 3.875% per annum. Interest on the notes shall be payable in equal instalments semi-annually in arrear on 6 May and 6 November in each year, commencing on 6 November 2020.
Form	<p>The notes will be in registered form, without interest coupons attached, in denominations of U.S.\$200,000 or multiples of US\$1,000 in excess thereof.</p> <p>The notes will be issued in the form of the Regulation S Global Note and the Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Note and the Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.</p>
Status of the Notes	The notes constitute unsubordinated and (subject to Condition 4 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which rank <i>pari passu</i> and without any preference among themselves. Subject to Condition 4 of the Terms and Conditions of the Notes, each of the Issuer and the Guarantor shall ensure that at all times the claims of the noteholders against them under the notes and the guarantee, respectively, rank in right of payment at least <i>pari passu</i> with the claims of all their other unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.
Guarantee	The payment, when due, of all sums expressed to be payable by the Issuer under the notes and the trust deed constituting the notes has the benefit of unconditional and irrevocable guarantee of the Guarantor, as further described in Condition 2(a) of the Terms and Conditions of the Notes.

**Cross
Default**
.....

There will be a cross default in respect of certain Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer, the Guarantor or any Principal Subsidiary (as defined in the Terms and Conditions of the Notes) equal to or greater than either (i) an individual amount of US\$100,000,000 or (ii) an aggregate amount of US\$300,000,000 (or their equivalents in another currency), as described in Condition 10(c) of the Terms and Conditions of the Notes.

**Negative
Pledge**
.....

There will be a negative pledge in respect of certain Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer, the Guarantor and its Subsidiaries, as described in Condition 4 of the Terms and Conditions of the Notes.

The protection that the negative pledge affords to noteholders is limited in the following key ways:

(1) As the definition of Relevant Indebtedness is limited to present or future Indebtedness (as defined in the Terms and Conditions of the Notes) in the form of, or represented by, notes, debentures, bonds or other securities (but, for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or agreements) which either are by their terms payable, or confer a right to payment, in any currency, and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market, the Issuer, LUKOIL and their Subsidiaries will be permitted to secure a range of other forms of Indebtedness without any obligation to provide equal and ratable security in respect of the notes or the guarantee, as the case may be.

(2) The Issuer, LUKOIL and their Subsidiaries will be further permitted to secure an aggregate amount of Relevant Indebtedness not exceeding 20% of the value of Consolidated Assets (as defined in the Terms and Conditions of the Notes), without any obligation to afford any equal and ratable security to noteholders. As a result, the Issuer, LUKOIL and their Subsidiaries may create security in respect of a significant amount of their Relevant Indebtedness without, at the same time, being obliged to grant equal and ratable security in respect of the notes or the guarantee, as the case may be.

We urge you to read the Terms and Conditions of the Notes in their entirety and, in particular, Condition 4, which relates to the negative pledge.

Covenants
.....

The Terms and Conditions of the Notes contain covenants in respect of mergers and the payment of taxes. For more information, see “*Terms and Conditions of the Notes*”.

**Tax
Redemption**
.....

The Issuer may redeem the notes, in whole but not in part, at their principal amount, plus accrued interest, in the event of certain changes in taxation in The Netherlands or Russia.

**Redemption and “Make-
Whole”
Premium**
.....

The Issuer may also choose to redeem the notes, in whole or in part, on any date falling prior to the relevant Par Call Date (as defined in the Terms and Conditions of the Notes), on not less than 30 days’ nor more than 60 days’ irrevocable notice, by paying a redemption price equal to the sum of:

- (1) 100% of the principal amount of the notes to be redeemed, *plus*
- (2) the Applicable Premium (as defined in the Terms and Conditions of the Notes), *plus*

(3) accrued and unpaid interest thereon, if any, to the redemption date.

The Issuer may also choose to redeem the notes, in whole or in part, on any date falling on or after the Par Call Date on not less than 30 nor more than 60 days' irrevocable notice to the noteholders, by paying a redemption price equal to the sum of 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon, if any, to the redemption date

**Listing of
Notes**

An application has been made to list the notes on the Official List of the FCA and for the notes to be admitted to trading on the Market.

**Ownership
Restrictions**

Neither Euroclear, Clearstream, Luxembourg nor DTC will monitor compliance with any transfer or ownership restrictions.

**Transfer
Restrictions**

The notes and the guarantee have not been and will not be registered under the Securities Act. You may offer to sell the notes only in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws of any relevant jurisdiction. See "*Transfer Restrictions*".

**ERISA
Considerations**

The notes may be acquired by (i) an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) that is subject to Title I of ERISA, (ii) a "plan" described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), (iii) any entity whose underlying assets include, or are deemed to include under the U.S. Department of Labor regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA, or otherwise for purposes of Title I of ERISA or Section 4975 of the Code, "plan assets" by reason of such employee benefit plan's or plan's investment in the entity or (iv) any employee benefit plan which is subject to any federal, state or local law, or foreign law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), provided that such purchase and holding of the notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any applicable Similar Law. Each purchaser and/or holder of notes and each transferee thereof will be deemed to have made certain representations as to its status under ERISA and the Code. Potential purchasers should read the sections entitled "*Taxation —ERISA*" and "*Transfer Restrictions*".

Trustee

Citicorp Trustee Company Limited.

**Principal Paying
Agent**

Citibank, N.A., London Branch.

Registrar

Citigroup Global Markets Europe AG.

**Governing Law and
Arbitration**

The notes and the trust deed (including the guarantee) and any non-contractual obligations arising out of or in connection with the notes and the trust deed (including the guarantee) will be governed by and construed in accordance with English law and contain provisions for arbitration in London, England.

**Use of
Proceeds**

.....

Commissions and expenses associated with the offering of the notes (including total expenses related to the listing and admission to trading of the notes) are expected to be approximately US\$1,200,000. We anticipate the aggregate net proceeds from the issue of the notes to be approximately US\$1,498,800,000.

The net proceeds from the issue of the notes will be used by the Issuer to on-lend to LUKOIL, which intends to use the proceeds for general corporate purposes.

**Security
Identification**

.....

	ISIN	Common Code	CUSIP
Rule 144A notes	US54988LAB27	215989844	54988L AB2
Regulation S notes	XS2159874002	215987400	—

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The summary consolidated financial information set out below as of and for the years ended 31 December 2019, 2018 and 2017 has been derived from our audited annual consolidated financial statements and notes thereto included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

The following summary information should be read together with “Presentation of Financial and Other Information—Presentation of Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto and the unaudited supplementary information on oil and gas exploration and production activities therein included elsewhere in this prospectus. Investors should read this prospectus as a whole and not rely solely on summary or selected information.

	Year ended 31 December		
	2019	2018	2017
	<i>(millions of rubles, except per share amounts)</i>		
Consolidated Statement of Profit or Loss and Other Comprehensive Income:			
Revenues			
Sales (including excise and export tariffs)	7,841,246	8,035,889	5,936,705
Costs and other deductions			
Operating expenses	(457,710)	(464,467)	(456,765)
Cost of purchased crude oil, gas and products	(4,308,073)	(4,534,244)	(3,129,864)
Transportation expenses	(278,798)	(270,153)	(272,792)
Selling, general and administrative expenses	(197,172)	(192,433)	(165,331)
Depreciation, depletion and amortisation	(415,094)	(343,085)	(325,054)
Taxes other than income taxes	(928,190)	(899,383)	(606,510)
Excise and export tariffs	(425,763)	(556,827)	(461,525)
Exploration expenses	(9,348)	(3,582)	(12,348)
Profit from operating activities	821,098	771,715	506,516
Finance income	25,134	19,530	15,151
Finance costs	(44,356)	(38,298)	(27,331)
Equity share in income of affiliates	18,246	25,243	16,864
Foreign exchange gain (loss)	923	33,763	(19,948)
Other (expenses) income	(27,691)	(38,934)	32,932
Profit before income taxes	793,354	773,019	524,184
Current income taxes	(144,615)	(137,062)	(99,976)
Deferred income taxes	(6,518)	(14,855)	(3,786)
Total income tax expense	(151,133)	(151,917)	(103,762)
Profit for the year	642,221	621,102	420,422
Profit for the year attributable to non-controlling interests	(2,043)	(1,928)	(1,617)
Profit for the year attributable to PJSC “LUKOIL” shareholders	640,178	619,174	418,805
Other comprehensive income (loss), net of income taxes:			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations	(164,117)	172,037	2,626
Change in fair value of equity investments at fair value through other comprehensive income	(348)	(2,393)	(2,180)
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset of pension plan	(1,976)	(196)	(2,325)
Other comprehensive (loss) income	(166,441)	169,448	(1,879)
Total comprehensive income for the year	475,780	790,550	418,543
Total comprehensive income for the year attributable to non-controlling interests	(2,015)	(1,912)	(1,650)
Total comprehensive income for the year attributable to PJSC “LUKOIL” shareholders	473,765	788,638	416,893
Earnings per share of common stock attributable to PJSC “LUKOIL” shareholders (in rubles):			
Basic	963.28	874.47	589.14
Diluted	934.73	865.19	589.14
	Year ended 31 December		
	2019	2018	2017
	<i>(millions of rubles)</i>		
Consolidated Statement of Financial Position:			
Cash and cash equivalents	516,032	492,650	330,390

Property, plant and equipment	4,026,007	3,829,164	3,575,165
Total assets	5,947,050	5,732,382	5,226,215
Total liabilities	1,973,601	1,658,856	1,735,816
Total equity attributable to PJSC "LUKOIL" shareholders.....	3,965,364	4,065,560	3,482,951

Summary Reserves and Production Information

The reserves and production information in this prospectus includes reserves and production that we do not beneficially own which are attributable to minority interests in our consolidated subsidiaries and our equity share of reserves and production of our affiliated companies. Unless otherwise specified, the reserves and production information in this prospectus does not include information relating to any acquisitions or transactions that we have commenced or completed in 2020.

We have extracted the reserves information set out below without material adjustment from the reserves reports audited by Miller and Lents. See "*Presentation of Reserves and Resources*". We have extracted the production information set out below without material adjustment from our management accounts and operating records. We use this reserves and production information in managing our business and we expect to continue to report on such reserves and production information in our annual reports.

	As of 31 December		
	2019	2018	2017
Reserves			
Crude oil (mmbbls)			
Proved	12,015	12,082	12,077
Probable	4,671	4,855	4,835
Gas (bcf)			
Proved	22,527	23,093	23,649
Probable	9,275	9,414	9,446
Crude oil and gas (mmboe)			
Proved	15,769	15,931	16,018
Probable	6,217	6,424	6,409

	Year ended 31 December		
	2019	2018	2017
Production			
Production of hydrocarbons (mmboe).....	868.7	856.5	828.0
Crude oil and natural gas liquids (mmbbls)	662.4	659.1	658.3
Russia	619.1	618.4	616.0
International.....	43.3	40.7	42.3
Gas (bcf).....	1,237.6	1,184.6	1,019.2

USE OF PROCEEDS

Commissions and expenses associated with the offering of the notes (including total expenses related to the listing and admission to trading of the notes) are expected to be approximately US\$1,200,000. We anticipate the aggregate net proceeds from the issue of the notes to be approximately US\$1,498,800,000.

The net proceeds from the issue of the notes will be used by the Issuer to on-lend to LUKOIL, which intends to use the proceeds for general corporate purposes.

RISK FACTORS

Investing in the notes involves a high degree of risk. You should carefully consider the risks, and the other information contained in this prospectus, before you decide to invest in the notes. The trading price of the notes could decline due to any of these risks and you could lose all or part of your investment. You should note that the risks described below are not the only risks we face. We have described only the risks that we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not presently aware. If any of the following risks were to materialise, our business, financial condition, results of operations and prospects could be materially adversely affected and it could affect the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Risks Relating to Our Business and the Oil and Gas Industry

Sanctions, export controls and other related actions and events, as well as political and economic uncertainty, may continue to adversely impact our business, financial condition, results of operations and prospects.

Following the political and military crisis in Ukraine and Crimea's accession to the Russian Federation in 2014, the U.S., EU and certain other countries introduced sanctions and export controls providing for certain kinds of restrictions on trade and transactions involving Russia and Russian individuals, companies and organisations. See "*The naming of LUKOIL on certain sanctions and export control lists by the United States, and the imposition of export controls in relation to the Russian energy sector by the European Union and other countries, may adversely affect our business, financial condition, results of operations and prospects*" for more information. Subsequently, the U.S. has passed legislation and taken other actions in response to the ongoing situation in Ukraine and Crimea, alleged Russian cyber-attacks and election interference as well as Russia's activities in Syria. See "*Additional sanctions imposed by the United States and the European Union, and other related actions and developments may adversely affect our business, financial condition, results of operations and prospects.*" Other factors that affect international relations between Russia and the European Union (including the UK) and the United States may lead to additional sanctions or other measures.

In response to U.S. and EU sanctions and export controls, Russia has introduced and may enact new counter-sanctions, impose visa bans on certain persons, and impose restrictions on the ability of Russian companies to comply with sanctions imposed by other countries.

These events, sanctions and export controls may increase capital outflows from Russia; reduce foreign investments in Russia; and adversely affect the Russian economy, the Russian financial market, energy, defence and banking sectors, the credit ratings of Russia and Russian companies, the general business and investment climate in Russia and the liquidity in a secondary market for the notes. The impact of these circumstances, or any continuation or escalation of the underlying conflicts or other events, may lead to further sanctions and/or export controls (including measures that target LUKOIL's suppliers, affiliates, joint venture and business partners, including financial institutions, and/or measures that target the Russian energy sector or LUKOIL specifically and may restrict access to international capital markets, activities with specific entities or persons or the ability to acquire certain goods, services or technologies) and have a material adverse effect on our business, financial condition, results of operations and prospects. See "*Risks Relating to the Offering and the Notes—The notes may not have an active trading market, which may have an impact on the value of the notes*" in relation to the secondary market for the notes.

The naming of LUKOIL on certain sanctions and export control lists by the United States, and the imposition of export controls in relation to the Russian energy sector by the European Union and other countries, may adversely affect our business, financial condition, results of operations and prospects.

On 12 September 2014, the United States announced sanctions against certain Russian entities, including through the issuance of Directive 4 by the U.S. Department of the Treasury, Office of Foreign Assets Control ("**OFAC**"), which designated LUKOIL and certain other Russian energy companies, including Rosneft, Gazprom and Surgutneftegaz. On 2 August 2017, U.S. President Donald Trump signed into law the Countering America's Adversaries Through Sanctions Act ("**CAATSA**"). Following the enactment and implementation of CAATSA, Directive 4 prohibits the following activities by U.S. persons (including U.S. citizens, U.S. permanent residents, companies organised under U.S. law and their foreign branches, and persons of any nationality to the extent located within U.S. territory): the provision, exportation, or reexportation, directly or indirectly, of goods, services (except for financial services, including clearing transactions and providing insurance) or technology in support of exploration or production for deepwater (greater than 500 feet), Arctic offshore or shale projects (i) that have the potential to produce oil in Russia or in "maritime area claimed by the Russian Federation and extending from its

territory”, and that involve any person determined to be subject to Directive 4, or such person’s property or interest in property or (ii) that are initiated on or after 29 January 2018 and that have the potential to produce oil anywhere in the world, and in which any person subject to Directive 4 has an ownership interest of not less than 33% or ownership of a majority of the voting interests (Technological Sectoral Sanctions). The Directive 4 prohibitions apply to LUKOIL and all entities 50% or more owned, directly or indirectly, by LUKOIL, including the Issuer, and entities owned 50% or more, in the aggregate, directly or indirectly, by LUKOIL and any other entities listed pursuant to Directive 4.

Furthermore, the U.S. Department of Commerce, Bureau of Industry and Security (“**BIS**”) included LUKOIL on its Entity List (the “**Entity List**”), effective 17 September 2014, which imposes export control licensing requirements on the export, reexport or transfer of commercial goods and other items subject to the Export Administration Regulations (“**EAR**”) (i.e., items of U.S.-origin and items that contain more than 25% controlled U.S.-origin content), to LUKOIL and other listed entities, when the exporter, reexporter or transferor knows those items will be used directly or indirectly in support of exploration or production for Russian deepwater, Arctic offshore, or shale projects that have the potential to produce oil and/or gas or is unable to determine whether the item will be used in such projects. The Entity List licensing restrictions applicable to LUKOIL also apply to LUKOIL branches or operating divisions, but do not apply to separately incorporated subsidiaries of LUKOIL. Additionally, any LUKOIL affiliated or unaffiliated company that acts as an agent for LUKOIL in order to facilitate LUKOIL’s receipt of relevant EAR-controlled items for Russian deepwater, Arctic offshore or shale projects in Russia without receiving an export licence could be charged with violating the EAR. This Entity List announcement followed the adoption of the Russian Oil Industry Sanctions by BIS on 6 August 2014, which imposed general export control restrictions (not specific to LUKOIL) on specified items when the exporter, reexporter or transferor knows those items will be used directly or indirectly in support of exploration or production for Russian deepwater, Arctic offshore, or shale projects that have the potential to produce oil and/or gas or is unable to determine whether the item will be used in such projects.

Also, on 12 September 2014, the European Union announced export control restrictions prohibiting the provision of certain associated services (namely, drilling, well testing, logging and completion services, and the supply of specialised floating vessels) necessary for deep water (greater than 150 metres (approximately 500 feet)) oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia. These measures supplement the existing European Union export control restrictions, announced on 31 July 2014, which prohibit the non-licensed sale, supply, transfer or export, directly or indirectly, by persons subject to the jurisdiction of the European Union (including companies incorporated in the EU; persons within the territory of the EU, including its airspace; nationals of EU Member States, wherever located; persons on board any aircraft or vessel under the jurisdiction of an EU Member State; and any legal person, entity, or body with respect to any business done in whole or in part within the EU), of certain items (whether or not originating in the EU) to or for use in Russia, where the required licence will generally not be granted if the items are destined for deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia. Additionally, EU sanctions prohibit the provision of technical assistance, brokering services, financing, and financial assistance related to these controlled items. Similar restrictions are included in the UK national sanctions regulations that are expected to become effective at the end of the implementation period under the withdrawal agreement between the UK and the EU (currently scheduled for 31 December 2020).

The current sanctions and export controls may directly or indirectly negatively impact the development of our projects (including deepwater and shale projects) and our strategic plans to expand our upstream operations in Russia and abroad. By restricting the export, reexport and/or transfer of certain items and services from the United States and the European Union, the sanctions and export controls have reduced the number of our eligible suppliers and the type of equipment we are able to access for some of our projects. We have had to find alternative suppliers, equipment and/or technology to develop some of our projects, and we may experience delays and increased costs in implementing some of our projects. See “*Business—Exploration and Production*” for information regarding our current projects. If we are unsuccessful in procuring necessary equipment and technology for our projects without significant delay, on favourable terms, or at all, our plans for developing the respective projects could be materially revised.

Sanctions and export controls may increase the time and cost required to develop projects if we are unable to attract or maintain foreign joint venture partners or foreign contractors with relevant expertise, or acquire goods, services or technology from certain suppliers. In addition, sanctions and export controls could have an adverse effect on our ability, or the ability of our joint ventures, to obtain financing on favourable terms and at desired levels. Any of the above circumstances that arise as a result of sanctions and/or export controls imposed by the United States, the European Union or other countries, separately or in the aggregate, now or in the future, could have a material adverse effect on our business, financial condition, results of operations and prospects.

The U.S. and EU sanctions and export control programmes described above are subject to interpretation and implementation by various regulators, including at a national level in different EU member states, and market participants which may deviate from our interpretation and application of these sanctions and export control restrictions to ourselves and our counterparties. Should the manner in which the sanctions and/or export controls are applied or interpreted change, our ability to transact with U.S. or EU persons could be affected. No assurance can be given that the potential impact on our dealings with such counterparties or of such varying interpretations would not have a material adverse effect on our business, financial condition and results of operations or the legal positions of the noteholders and/or the value of the notes.

Additional sanctions imposed by the United States and the European Union, and other related actions and developments may adversely affect our business, financial condition, results of operations and prospects.

In addition to the Technological Sectoral Sanctions and export controls described above, the U.S. and the EU have imposed (i) sanctions that block the property of certain designated businesses, organisations and individuals (“**Blocking Sanctions**”), (ii) sectoral sanctions that prohibit certain types of transactions with companies operating in the Russian energy, financial and defence sectors, including limitations on provision of debt or equity financing (“**Financial Sectoral Sanctions**”), and (iii) territorial sanctions restricting investment in and trade with Crimea. The U.S. and EU sanctions (including the sectoral sanctions) apply to entities owned and/or controlled by sanctions-designated entities and individuals and, accordingly, may extend beyond Russia.

As of the date of this prospectus, the Blocking Sanctions have been imposed against prominent Russian politicians, executive branch officials, members of the Russian Parliament, public figures, certain owners of large businesses in Russia as well as their assets and enterprises, and major defence companies of Russia, including Blocking Sanctions imposed on 6 April 2018 against a number of prominent Russian businesspeople and government officials and companies, including several energy companies and several CEOs of energy companies. Further, the U.S. has imposed two rounds of cybersecurity-based designations to date, including with regard to alleged Russian interference in the 2016 U.S. Presidential election, in December 2016 and March 2018.

Further, OFAC and the EU have introduced the Financial Sectoral Sanctions against (a) major Russian banks, such as Gazprombank, Vnesheconombank, VTB Bank (PJSC), Russian Agricultural Bank and Sberbank, (b) Transneft, Gazprom Neft, Rosneft and Novatek, and (c) State Corporation Rostec and other military industrial corporations. In April 2019, OFAC issued its first enforcement action against a U.S. company for violations of the Financial Sectoral Sanctions related to the U.S. company’s alleged prohibited dealing in Rosneft debt. LUKOIL has business relations with certain Russian persons and their controlled entities that are identified as targets of U.S. and EU sanctions. We believe that our dealings with such persons do not violate applicable U.S. or EU sanctions programmes. However, to the extent that we engage in transactions with any relevant sanctions-designated persons, U.S. officials could nonetheless find a basis under U.S. secondary sanctions to determine that we have knowingly facilitated significant transactions for or on behalf of persons subject to the Blocking Sanctions and could therefore impose secondary sanctions. Moreover, we could be limited in sources of financing for such dealings and/or be subject to related scrutiny by relevant authorities.

The U.S., EU and other countries have imposed additional sanctions concerning Russia in response to various additional foreign policy and national security concerns, including in response to tensions in the Kerch Strait, under alleged human rights violations, and following UK assertion of Russian involvement in an attack in Salisbury, UK. With respect to the latter, the U.S. issued targeted sanctions on Russia in August 2018 and August 2019 under the Chemical and Biological Weapons Control and Warfare Elimination Act (“**CBW Act**”). Among other things, the CBW Act sanctions restrict exports of additional items subject to the EAR (primarily items controlled for U.S. national security reasons) to Russia and prohibit U.S. financial institutions from dealing in the primary market for new Russian sovereign debt.

On 23 December 2019, the U.S. President signed the annual National Defense Authorization Act (the “**NDAA**”) for fiscal year 2020, which includes provisions authorizing U.S. imposition of sanctions on certain companies that have provided, or facilitated the provision of, vessels for the construction of the Nord Stream 2 pipeline project. The NDAA also requires the U.S. Director of National Intelligence (“**DNI**”) to report to the U.S. Congress by June 2020 on, among other things, the identity of significant senior Russian political figures, oligarchs, and any other persons who have engaged in activity intended to conceal the true financial condition of the Russian President.

There can be no assurance that further or more restrictive sanctions and/or export controls will not be introduced by the U.S., EU or other countries that could increase the adverse effects above. For example, among other provisions, CAATSA requires the U.S. President to impose certain U.S. sanctions against (i) non-U.S. persons who knowingly make significant investments in Russian deepwater, Arctic offshore, or shale projects that are

intended to extract crude oil after 1 September 2017 unless the U.S. President determines that it is not in the national interest of the United States to do so; (ii) non-U.S. persons who engage in a “significant transaction” with designated entities associated with the defence and intelligence sectors of Russia; and (iii) any persons who knowingly make or facilitate an investment of \$10 million or more that contributes to the privatisation of Russian state-owned assets that “unjustly benefits” Russian officials and their family members and close associates. CAATSA also gives the U.S. President discretionary authority to impose potential future U.S. sectoral sanctions on state-owned entities operating in the railway sector as well as certain potential future U.S. sanctions on non-U.S. persons who knowingly make significant investments in energy export pipelines or provide certain high-valued goods, services, technology, information, or other support for the construction, modernisation, or repair of energy pipelines. See “—*We depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge*” for information regarding our reliance on pipelines and railways for transportation of crude oil and refined products. See also “*Business—Transportation—Crude Oil Transportation—Caspian Pipeline Consortium*” for information regarding our 12.5% interest in the Caspian Pipeline Consortium. Moreover, CAATSA mandates the U.S. President to impose certain sanctions on a non-U.S. person determined to knowingly and materially violate or to conspire to violate or cause a violation of certain sanctions restrictions or who facilitates a significant transaction or transactions for or on behalf of any person subject to U.S. sanctions against Russia or the relatives of such sanctioned persons. To the extent the relevant authorities determine that we are engaged in the projects or transactions referred to in CAATSA, we may be subject to additional sanctions.

CAATSA also requires the U.S. administration to submit various reports to the U.S. Congress, including the one-time report required under Section 241 of CAATSA on “oligarchs and parastatal entities” in Russia, which the U.S. Department of Treasury released on 29 January 2018. This report did not by itself impose any new U.S. sanctions on persons listed in it. The unclassified version of this report, reportedly based on public materials, listed 114 “senior foreign political figures” and 96 “oligarchs” defined as Russian individuals with an estimated net worth of \$1 billion or more, including the names of LUKOIL CEO Vagit Alekperov and LUKOIL Vice President for Strategic Development Leonid Fedun. The classified annex reportedly includes additional information regarding the individuals listed in the unclassified report and potentially other individuals not listed in the unclassified report, as required by CAATSA. As expressly stated by U.S. officials in conjunction with the release of this report, the Section 241 report is not a sanctions list and the inclusion of individuals or entities does not impose sanctions on those individuals or entities, nor does it, by itself, establish any other legal restrictions, prohibitions, or limitations on dealings with such persons by either U.S. or foreign persons. However, on 6 April 2018, over a dozen individuals and government officials listed in the unclassified Section 241 report, including several CEOs of Russian energy companies, were designated as SDNs by OFAC. In addition, certain individuals who were sanctioned on 6 April 2018 were not listed in the unclassified report but may have been named in the classified annex. Any further expansion of U.S. sanctions resulting from Section 241, any other section of CAATSA or otherwise, depending on what action is taken, may have a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally, and/or on LUKOIL in particular.

On 18 December 2019, the U.S. Senate Foreign Relations Committee voted to approve the Defending American Security from Kremlin Aggression Act of 2019 (“**DASKA**”). The legislation, which remains pending in the U.S. Congress, includes a range of Russia sanctions provisions. If the legislation is enacted into law, the proposed sanctions would be triggered in the event that the U.S. government makes a finding that Russia is engaged in or knowingly supporting operations to interfere in U.S. democratic processes, including: (a) sanctions on any person who “knowingly, on or after such date of enactment, makes an investment” that (1) has a fair market value of \$1,000,000 or more; or (2) during a 12-month period, has an aggregate fair market value of \$5,000,000 or more “. . . that directly and significantly contributes to the ability of the Russian Federation to construct liquefied natural gas export facilities outside of the Russian Federation;” (b) requiring, in the event that the Director of National Intelligence makes a determination that Russia engaged in certain malicious cyber activities targeting critical election infrastructure, the U.S. President to “prescribe regulations” for sanctions on Russian sovereign debt, namely to prohibit U.S. persons from engaging in transactions in sovereign debt (including government bonds) issued by the Russian Government on or after the date that is 90 days after such determination; (c) sanctions with respect to any Russian financial institution that the U.S. President determines has, on or after such date of enactment of DASKA, knowingly provided financial or other support for interference by the Russian Government in the democratic process or elections of any country other than Russia. DASKA also includes a number of other energy- and shipping-related sanctions that would apply if the U.S. Secretary of State and DNI (i) make a threshold finding that “the Government of the Russian Federation is engaged in or knowingly supporting offensive military operations in Ukraine,” or (ii) fail to make such finding “[n]ot later than 45 days after the date of the enactment of DASKA, and every 90 days thereafter.” At this time, it is not clear whether this legislation ultimately will be enacted into law. If it is enacted, DASKA could have a material adverse effect on the Russian financial markets

and investment climate and the Russian economy generally, and/or on LUKOIL.

If the U.S., EU and/or other countries' sanctions and/or export control programmes are expanded, including among other things, in relation to LUKOIL, its shareholders or the Russian energy sector, our counterparties and business partners may be forced to consider their relationship with us because of compliance, political, reputational or other reasons, and our contracts with them may be terminated, and/or the trading market for the notes could be adversely affected. If LUKOIL or the Issuer become subject to any such expanded sanctions or either of them is affected by such expanded sanctions imposed on any of LUKOIL's subsidiaries, relevant clearing systems, brokers and other market participants, as well as the London Stock Exchange, may refuse to permit trading in or otherwise facilitate transfers of the notes and certain noteholders may be unable or unwilling to continue to hold or receive payments on the notes as a result of applicable law, any or all of which could reduce the trading market for the notes or may otherwise materially impact the value of the notes.

A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations.

Our business, financial condition and results of operations depend substantially upon the prevailing prices of crude oil, refined products, natural gas and petrochemical products. Continued lower prices for crude oil may reduce the amount of crude oil that we can produce economically (thereby decreasing the size of our reserves) or reduce the economic viability of projects planned or in development.

Historically, prices for crude oil, refined products, natural gas and petrochemical products have fluctuated widely in response to changes in many factors over which we do not and will not have control. These factors include:

- global and regional economic, social and political conditions or developments, particularly in resource-producing regions such as the Middle East, Africa, the United States, Canada and South America;
- global and regional supply and demand and expectations regarding future supply and demand for crude oil, refined products, natural gas and petrochemical products;
- the cost of exploring for, developing, producing, processing and marketing crude oil, refined products, natural gas and petrochemical products;
- the ability and willingness of the Organisation of Petroleum Exporting Countries ("OPEC") and/or other resource producing nations to influence global production levels and prices;
- global and regional security, including uncertainty or instability resulting from an escalation or outbreak of armed hostilities, acts of terrorism, war or other conflicts, particularly in resource-producing regions;
- the cost and availability of alternative and competing fuels, including unconventional (such as oil sands and shale) and renewable energies;
- governmental regulations, relations and actions, including sanctions, changes in energy and climate policies, export restrictions and taxes;
- unexpected failure in infrastructure and industrial accidents;
- speculative trading activities;
- changes in population growth and consumer preferences;
- the cost and availability of new technology; and
- weather and climate conditions, global or regional natural disasters and infectious diseases, such as the coronavirus (COVID-19).

It is impossible to predict future crude oil, refined products, natural gas and petrochemical price movements with certainty. Moreover, we engage in limited derivative transactions only in respect of our international trading operations and hedging of commodity price risks.

Crude oil pricing has been particularly volatile over the past several years, and oil prices may remain highly volatile. According to data from Platts, the spot price per barrel for Brent crude (an international benchmark oil blend) in 2017 ranged from a low of \$44.28 on 20 June to a high of \$66.54 on 29 December, averaging \$54.28 per barrel for the year; in 2018 ranged from a low of \$50.21 on 28 December to a high of \$86.16 on 4 October, averaging \$70.94 per barrel for the year; and in 2019 ranged from a low of \$53.24 on 3 January to a high of \$74.69 on 16 May, averaging \$64.28 per barrel for the year. International natural gas, refined products and petrochemical

products prices, which typically follow changes in international oil prices, have also fluctuated considerably in recent years, leading to changes in refining margins that can affect our profitability.

In 2014, crude oil prices had sharply declined, reaching a low point in early 2016. Since early 2016, crude oil prices have slowly increased, partly due to agreements between OPEC and certain non-OPEC countries (together with OPEC, “OPEC+”) to reduce collective output by 1.8 million bpd from January 2017. This reduction lasted through the end of June 2018. In December 2018, OPEC+ agreed to decrease production once again, until June 2019. This arrangement was subsequently prolonged through March 2020, restricting the collective output of OPEC+ by 1.2 million bpd through December 2019, and, starting from January 2020, restricting the collective output of OPEC+ by 1.7 million bpd. As a result of these OPEC+ restrictions, we temporarily reduced our crude oil production volumes in Russia, primarily by limiting production at our least productive wells and wells with high water cut. In March 2020, the OPEC+ countries were unable to agree on limitations on crude oil production for a new period, which, given the environment of declining demand for crude oil due to the coronavirus (COVID-19), resulted in a steep decline in oil prices. On 12 April 2020, the OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million bpd beginning in May 2020; these initial limitations will last for two months with the collective output limitations of OPEC+ then decreasing to 7.7 million bpd from July 2020 and then further decreasing to 5.8 million bpd from January 2021 until the agreement expires in the end of April 2022. The full impact of this agreement on crude oil prices is still uncertain.

According to the OPEC+ agreement, Russia will reduce its crude oil production to 8.5 million bpd, starting from May 2020 with respective increases in production from July 2020 and January 2021. We expect that Russian oil companies, including LUKOIL, will reduce their production on a pro rata basis determined by each company’s average daily production in February and March 2020. As a result, we may reduce our crude oil production in Russia by approximately 300 thousand bpd as compared to our average daily production in February and March 2020. We expect that negotiations between the Russian Ministry of Energy and Russian oil companies on the reductions on crude oil production will be finalised by the end of April 2020.

Coronavirus (COVID-19) has produced a significant negative impact on the level of global economic activity, which has resulted in a substantial decline in demand for hydrocarbons. Since the coronavirus (COVID-19) outbreak, this weakening demand for hydrocarbons has led to a steep decline in Brent crude oil prices to less than \$16 per barrel. Moreover, in April 2020, the West Texas Intermediate crude oil prices dropped below zero for the first time in history due to decreased demand and limited available storage capacity in the United States; there can be no assurance that these combined factors of decreased demand and limited storage capacity will not cause similar, precipitous declines in other oil price benchmarks, such as Brent crude. Although the situation with coronavirus (COVID-19) has already started normalising in China with respective recovery in demand for hydrocarbons, the exact scale and duration of its negative impact globally remains uncertain.

The steep decline in crude oil prices had a substantial negative impact on our upstream margins in March 2020. Additionally, our daily gas production in March 2020 is expected to be lower than in the previous months due to lower demand. We also expect our downstream financial results for the first quarter of 2020 to be substantially impacted by a negative inventory effect at our refineries as a result of rapid decline in international petroleum product prices in March 2020. We expect our future results of operations, financial condition and cash flows to be further impacted by the coronavirus (COVID-19) outbreak and the related decrease in hydrocarbon demand and prices; however, due to rapidly evolving developments with respect to this environment, we are not currently able to estimate and quantify the negative effects that the coronavirus (COVID-19) outbreak and the related decrease in hydrocarbon demand and prices will ultimately have on our financial performance and results of operation. A further decline in crude oil, refined products, natural gas or petrochemical products prices, or a long-term continuation of low prices, could materially adversely affect our business, financial condition, results of operations and prospects and our ability to finance planned capital expenditures. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Operational Highlights—Reserves Base*” for more information on our reserves estimates.

In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators could lead to further reviews for impairment of the Group’s oil and natural gas properties. Such reviews would reflect the management’s view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the results of our operations in the period in which it occurs. For example, as a result of impairment tests in 2015, with the sharp decline in crude oil prices and adverse macroeconomic changes, we recognised impairment losses and dry hole write-offs in a total amount of RUB 161,130 million in 2015 (net of tax), which had a significant negative impact on profit for the year attributable to LUKOIL shareholders. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Main Macroeconomic Factors Affecting Our Results of*

Operations—International Crude Oil and Refined Products Prices” and “—Domestic Crude Oil and Refined Products Prices” for more information on the impact of crude oil price volatility on our results of operations.

Public health crises and threats could have a material adverse effect on our business, financial condition and results of operations.

Public health crises, threats, epidemics and pandemics, may adversely impact our operations and personnel, the operations and personnel of our customers and suppliers, as well as the global economy. For example, the coronavirus (COVID-19) outbreak that was reported in China in December 2019, and then subsequently spread across other countries, has led to a pandemic, which has resulted in travel restrictions, quarantines and similar measures taken by governments and companies around the world. Such measures have reduced business activity in countries that are major consumers of energy resources, leading to a sharp decline in both the demand for and the price of hydrocarbons, which have an adverse effect on our results of operations. See “—A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations”.

Moreover, the quarantine of personnel, the inability or unwillingness of personnel to access our job sites, restrictions on business travel and reduced productivity that may arise from remote working due to various factors, including potential technical limitations, may adversely affect our operations.

We participate in a global supply chain, which includes equipment and materials that may be sourced from affected parts of the world. A prolonged disruption caused by such public health crises or threats may result in the delay of equipment and materials needed for implementing our projects, which may have an adverse effect on our business, financial condition and results of operations. See “—Our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses”.

Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations.

We conduct our operations in Russia under numerous subsoil licences. The licensing regime in Russia for the exploration, development and production of crude oil and natural gas is governed primarily by the Russian law “On Subsoil” (the Subsoil Law) and related regulations. We may be subject to fines and our licences may be terminated, suspended or limited if we breach licence requirements (including the obligation to reach a certain level of production), do not make timely payments of levies and taxes for the use of the subsoil, fail to provide reports or fail to fulfil any capital expenditure and/or production obligations.

As our licences were mainly issued prior to 2000, our production licences generally have an initial term of 20 years, while our combined exploration and production licences generally have an initial term of 25 years. However, since the substantial changes were made in the Subsoil Law in 2000, new exploration and production licences are issued for a period equal to the economic life of the relevant field. With respect to our original licences (those that pre-date such legislation), we routinely obtain extensions to the licences that have expired and to date, none of our licence renewal applications have been denied. Approximately 6.12% of our subsoil use licences for production expire between 2020 and 2024, and the licences that need to be extended during the next 12 months do not comprise a material portion of our business or operations. However, we can give no assurance that our original licences will be extended. Regulatory authorities can exercise considerable authority in issuing and renewing licences. The failure to extend our licences, upon expiration, for the economic life of the relevant fields could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

We may be unable to comply with certain licence requirements for some or all of our licence areas. In the ordinary course, we are subject to audits by the Russian authorities related to compliance with the terms of our licences. As of the date of this prospectus, we are not aware of any material violations of our licences. However, if we fail to fulfil the specific terms of any of our licences or if we operate in our licence areas in a manner that violates Russian law, government regulators may impose fines on us or suspend, revoke or terminate our licences, any of which could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

In addition, because we did not own or control all of our subsidiaries when they obtained their initial subsoil licences, we cannot be certain that all of our subsidiaries’ licences were issued, or the preceding and current licences were re-issued, in accordance with all applicable law and regulations at the time. If it is determined that any of these licences were issued and/or re-issued in violation of applicable laws, such licences could be subject to revocation. A loss of any such licence could materially adversely affect our business, financial condition and

results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

To operate our business as currently contemplated, we must also obtain permits and authorisations to conduct operations, such as land allotments, approvals of design and feasibility studies, pilot projects and development plans and for the construction of any facilities on site. We may not be able to obtain all required permits and authorisations. If we fail to receive any required permits and authorisations (whether in Russia or internationally), we may have to delay our investment or development programmes, or both, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge.

Generally, crude oil production in Russia is transported to refineries or customers through the Russian crude oil pipeline system which is operated by a state-owned company, PJSC Transneft ("**Transneft**"), or by railway transport. The Transneft pipeline system is subject to breakdowns, leakage, outages, capacity constraints and other major disruptions. We can give no assurance that the system is adequately funded, maintained or modernised, and a significant part of the pipeline infrastructure may be in poor condition. Transneft is currently subject to Financial Sectoral Sanctions and may experience delays, increased costs or difficulty obtaining international financing in respect of its pipeline system. See also "*—Additional sanctions imposed by the United States and the European Union, and other related actions and developments may adversely affect our business, financial condition, results of operations and prospects*". Much of the system is located in regions with harsh climates where construction, maintenance and refurbishment can be challenging. In addition, during pipeline maintenance periods, we may experience delays in or be prevented from transporting crude oil from some of our fields. These delays, outages or capacity constraints, or other major disruptions in the Transneft system, could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The Russian Government regulates access to Transneft's pipeline network and is required to provide access on a non-discriminatory basis. Pipeline capacity, including export pipeline capacity, is allocated to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered to Transneft's pipeline network in the prior quarter. Historically, the Transneft pipeline system did not have sufficient capacity to meet the total demand for crude oil pipeline exports of Russian oil producers. Transneft has made substantial investments in the development of additional export routes and transshipment terminals in order to increase capacity. However, any failure by Transneft to maintain or sufficiently increase the capacity of the Transneft system or the occurrence of breakdowns, leakages, pipeline contaminations or other major disruptions in the Transneft system could require us to use more expensive alternative export routes, sell excess production in the domestic market or subject us to certain claims from our customers, any of which could result in a decline in our profit margin.

For example, in April 2019, it emerged that significant volumes of oil exported from Russia to European countries through the Transneft pipelines were contaminated, and a high level of organic chloride was found in the crude oil. As a result, commercial usability of such crude was substantially limited. The disruption in deliveries and the necessity to undertake clean-up and other measures to remedy the consequences of the incident resulted in significant delays in transportation for Transneft's clients, including LUKOIL. From April to May 2019, we used the Transneft pipeline to transport our crude oil to companies of the MOL Group ("**MOL**"). Due to the incident at the Transneft system, MOL received contaminated crude oil and subsequently brought certain claims against us. Since this time, we have negotiated and signed a set of agreements between us, Transneft and MOL pursuant to which Transneft agreed to compensate MOL for damages caused by the delivery of contaminated crude oil. Any possible recurrence of such incident in the future may materially adversely affect our business, financial conditions and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We, along with all other Russian crude oil producers, must pay transportation fees to Transneft in order to transport crude oil and refined products through the Transneft network. The Russian Federal Antimonopoly Service ("**FAS**") is responsible for setting Transneft's tariffs, which tend to increase annually in ruble terms. Failure to pay these tariffs could result in the termination or temporary suspension of our access to the Transneft network. Significant increases in Transneft's tariffs or the termination or suspension of our access to the Transneft network would materially adversely affect our business, financial conditions and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We transport the major part of our refined products by railway transport. We also depend on railway transportation for the distribution of our crude oil. Joint Stock Company “Russian Railways” (“**Russian Railways**”) is a state-owned monopoly provider of railway transportation services. According to Russian Railways, Russia’s rail infrastructure and related assets require significant maintenance and modernisation. Maintenance and modernisation projects may be reduced or postponed if adequate funding is unavailable, and use of the railways exposes us to risks such as potential delivery disruptions due to the condition of the railway infrastructure. In addition, the incompatibility of Russia’s wider railway gauge with the railway gauge of most other countries imposes additional costs and logistical constraints on our ability to export our products using the railways. Furthermore, rail freight prices are subject to annual adjustment based on various factors and tend to increase annually. In 2018 and 2019, tariffs for railroad transportation increased by 5.3% and 3.6% on average, respectively. Significant increases in Russian Railways’ fees would increase our transportation costs and could materially adversely affect our business, financial condition and results of operations.

The pipeline system of Joint Stock Company “AK “Transnefteproduct” (“**Transnefteproduct**”), a subsidiary of Transneft which is also subject to Financial Sectoral Sanctions, transports a portion of our refined products produced in Russia. We, along with other Russian refined product producers, must pay transportation fees to Transneft in order to transport our refined products through the Transnefteproduct network. The FAS is responsible for setting tariffs for the use of the Transnefteproduct network, which tend to increase annually in ruble terms. Any significant disruption in the pipeline system or significant increase in the transportation fees could materially adversely affect our business, financial condition and results of operations.

We face similar risks in some of the other countries where we operate. We can give no assurance that other oil pipeline companies or other transportation companies will not cause disruptions in, or significantly increase the fees for, the transportation of our crude oil or refined products in the future or that such disruptions or fee increases will not have a material adverse effect on our business, financial condition and results of operations.

Further, our ability to exploit reserves discovered in remote locations is dependent upon, among other things, the availability of the necessary infrastructure to transport oil and gas to potential buyers at a competitive price. At our international projects, we may also face obstacles related to capacity constraints, general political and economic instability and the necessity of obtaining approvals for pipelines from several governments that may not share a common development strategy.

Any restriction on our ability to access the necessary infrastructure to transport oil and gas, including any limitation on our access to Transneft’s pipeline network or Russian Railways’ rail network, could negatively impact our ability to transport our crude oil and/or refined products within Russia or to export our crude oil and/or refined products internationally, which in turn could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

We face several risks in connection with the implementation of our strategy to develop our natural gas operations.

As of 31 December 2019, our proved gas reserves in Russia comprised 72.9% of our total proved gas reserves. All material aspects of the Russian natural gas industry are subject to or materially affected by government regulation. Through its share ownership, representation on the board of directors and role as regulator, the government has strong influence over Gazprom, the dominant participant in Russia’s natural gas industry. Gazprom is the primary buyer of the natural gas we produce in Russia. The significant participation in the Russian natural gas industry of independent gas producers is a relatively recent development. If the government were to determine, through legislation, administrative action or otherwise, that independent gas producers should have a less significant role in the Russian natural gas industry, it could take actions (including through Gazprom) that would have a material adverse effect on our ability to develop our natural gas assets, which could in turn have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee. In 2014, we entered into a strategic partnership agreement with Gazprom whereby Gazprom agreed to accept all gas produced by our Group at the Bolshekhetskaya depression and up to 4.3 bcm per year of gas processed at our plant in Stavrolen through 2024. In June 2015, we signed an additional agreement with Gazprom to accept the supply of gas through 2024 from North Caspian fields.

The Unified Gas Supply System (the “**UGSS**”) is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. The Russian law “On Gas Export” (the “**Gas Export Law**”) grants exclusive rights to export natural gas to Gazprom and grants exclusive rights to export liquefied natural gas (“**LNG**”) to (i) Gazprom; (ii) entities which have licences for oil

fields of federal importance that as of 1 January 2013 had as a condition an obligation to build an LNG plant or an obligation to route natural gas in gaseous state to LNG plants for liquefaction; (iii) Russian legal entities with over 50% participation of the state or direct or indirect control by the state of over 50% of the voting rights which use oil and gas fields within the internal sea waters, territorial sea or continental shelf of the Russian Federation, the Black Sea or the Azov Sea and which produce LNG from natural gas in gaseous state extracted from the said oil and gas fields, or which produce LNG from natural gas in gaseous state extracted under production sharing agreements; and (iv) subsidiaries of the legal entities identified in (iii) above where such legal entities have over 50% participation in the voting rights of the subsidiaries and where such subsidiaries' activities conform to the conditions described in (iii) above. With respect to export of the natural gas in gaseous state Gazprom remains the sole entity with exclusive rights. Under the existing legislation, Gazprom must provide access to the UGSS to all independent suppliers on a non-discriminatory basis subject to spare capacity and other factors. However, Gazprom may exercise considerable discretion over access to the UGSS due to various factors because it is the sole owner of information relating to the UGSS's capacity. For example, a potential decline in global gas demand may have a negative impact over gas supply volumes of Gazprom which could have a negative effect on gas volumes which we sell to Gazprom. See "*Business—Transportation—Gas Transportation*" for more information about our transportation of gas through the UGSS. We can give no assurance that the legislation requiring Gazprom to provide access on a non-discriminatory basis will remain in place or be enforced, or that Gazprom will continue to provide us with access to the UGSS, to the extent we require, or at all, or that the terms of access offered will be commercially reasonable. A change in the existing legislation, a failure by Gazprom to comply with the legislation or other action by Gazprom to decrease our access to transportation capacity may limit the effective use and value of our gas producing assets and adversely affect our ability to implement our strategy to develop our natural gas resources, which could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We can give no assurance that the UGSS is adequately funded, maintained or modernised. Large segments of the UGSS network of pipelines and compressor installations are located in regions with harsh climates where construction, maintenance and refurbishment can be challenging. Any major disruption in the UGSS or any delays during regular maintenance work could impact our ability to implement our strategy to develop our gas producing assets, which could ultimately have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee. See also "*—Additional sanctions imposed by the United States and the European Union, and other related actions and developments may adversely affect our business, financial condition, results of operations and prospects*".

In Russia, the FAS regulates natural gas transportation tariffs. Regulated natural gas transportation tariffs have risen in recent years and we expect them to continue to rise. If natural gas transportation tariffs continue to rise and we are unable to pass on these additional costs to our end customers, or the impact of increased transportation tariffs on our wholesale customers requires us to decrease the natural gas prices we charge on a non-delivered basis, our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee could be materially adversely affected.

Gazprom is the monopoly supplier of gas in Russia. The Russian Government currently regulates the prices for the gas that Gazprom sells in Russia (other than through exchange sales). Current limitations on our pricing flexibility due to Gazprom's dominant position in Russia and the Russian Government's price regulations could have a material adverse effect on our business, financial condition and results of operations, particularly if the regulated prices are decreased. The Russian Government may cease to regulate domestic wholesale prices, but we cannot predict the levels or impact of the potential unregulated prices.

Global gas market conditions may also affect our gas sales volumes in Russia. Such factors as shale gas production growth, increased trade of LNG, pipeline infrastructure expansion, increased spot trading and gas demand decline may have a negative impact on the international gas sales volumes of Gazprom, which could have a negative effect on the volume of gas that we sell to Gazprom.

Our international subsoil use rights may be suspended, terminated, modified or revoked prior to their expiration.

We conduct our operations outside Russia under numerous production sharing and concession agreements. See "*—Risks Relating to Our Business and the Oil and Gas Industry—We have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition*" for information on the relevant jurisdictions in which we operate. See "*Business—Exploration and Production—International Exploration and Production*" for information on our

various production sharing and concession agreements. The licensing regime for the exploration, development and production of crude oil and natural gas is governed primarily by the relevant local laws, and we may be unable to obtain or extend necessary licences or agreements or comply with the terms thereof in some or all of our production areas abroad. Our production sharing and concession agreements may be terminated or modified, and our subsoil use rights may be suspended, terminated or revoked, if we fail to comply with relevant agreements' requirements, do not make timely payments to foreign governments or state owned operators, go bankrupt or fail to fulfil any substantial production obligations. Furthermore, even if we are in full compliance with the terms of our licences and agreements, we could still be subject to forced renegotiation or termination thereof, or other intervention by foreign governments or state owned operators. The occurrence of any of these events could have an adverse effect on our business, financial condition and results of operations.

Our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses.

Our development and exploration projects may be curtailed, delayed or cancelled or may prove to be unsuccessful for many reasons, including cost overruns, obtaining permits, obtaining financing, negotiations with third parties, lower oil and gas prices, equipment shortages, power shortages, mechanical difficulties and failing to discover productive oil and gas reserves. These projects may also require the use of new and advanced technologies, which may be expensive to develop, purchase and implement, and may not function as expected. In addition, some of our development and exploration projects are or may be located in deep water or frozen or other hostile environments, or involve or may involve production from challenging reservoirs, which can exacerbate such problems. The climate and topography of some of the regions where our fields are located limit access to certain fields and facilities during certain times of the year. During the summer and early fall, some fields are partially flooded and operating capacity is limited. If warmer weather starts earlier or ends later in the year than usual, then our operating capacity is more limited than normal. In winter, extreme cold or snowstorms could limit access to certain wells, and extreme cold could cause the temporary suspension of operations of wells with a high water cut. Such weather conditions could also limit our exploration operations.

We conduct exploration activities in areas, including the West Siberia and Timan-Pechora regions and areas in and around the Caspian Sea, where environmental conditions are challenging and costs can be high. The cost of drilling, completing and operating wells is often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, dry holes, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements, including those relating to environmental protection, and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, our overall drilling activity or drilling activity within a particular project area may be unsuccessful in that we may not find commercially productive reservoirs. See “—Public health crises and threats could have a material adverse effect on our business, financial condition and results of operations” for information on the potential impact of public health crises, including the coronavirus (COVID-19) outbreak, on our development and exploration projects.

If any of these risks were to materialise, it could impede our development or exploration plans for our fields and facilities and otherwise materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Russian Subsoil Law provides that certain subsoil areas shall be considered as having federal importance. These subsoil areas include areas that, in particular, contain recoverable oil reserves of at least 70 million tonnes or natural gas reserves of at least 50 bcm and any subsoil areas located in domestic sea waters or territorial seas or in any continental shelf of Russia. Pursuant to the Subsoil Law, rights to develop oil fields designated as having federal importance situated on the continental shelf, or within the territory of Russia but extending to the continental shelf, may be granted only to Russian entities having at least five years of experience in the development of the continental shelf of the Russian Federation, with state (federal) equity participation exceeding 50% or in relation to which the Russian Federation has a right to either directly or indirectly control over 50% of the voting shares. Accordingly, there is a risk that if we wish to acquire any such rights, we would be required to participate in a joint venture with state participation, over which we may not have control. See “Regulation of the Oil Industry in the Russian Federation—Subsoil Production Licences—Issuance of licences” for more information on the use and legal status of the subsoil areas of federal importance.

If we fail to acquire or find and develop additional reserves or to conduct successful development activities, our reserves and production will decline materially from their current levels.

If we fail to conduct successful exploration and development activities or acquire properties with proved reserves, or both, our proved reserves will decline as we extract oil and natural gas. As of 31 December 2019, our proved

hydrocarbon reserves were 15.8 billion boe, which is 0.2 billion boe lower compared to our proved reserves as of 31 December 2017. In addition, the rate of production from crude oil and natural gas properties generally declines as reserves are depleted. In 2019, 2018 and 2017, our annual reserve replacement ratio was positive, however, in 2015, it was negative due to a substantial decline in crude oil prices.

West Siberia, our main oil producing region, is maturing. Our future production is highly dependent upon our success in finding or acquiring and developing additional reserves in an economically viable manner. If we are unsuccessful, our total proved reserves will decline, which, in the long term, would result in declining production and could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We compete with other oil and gas companies in all areas of our operations, including the acquisition of licences, exploratory prospects and producing properties and we may encounter competition from suppliers of alternative forms of energy sources.

The oil and gas industry is intensely competitive. We compete with other major Russian and international oil and gas companies. Many of our international competitors have substantially greater resources and have been operating in a market-based, competitive economic environment for much longer than we have. See "*Business—Competition*". PJSC Rosneft Oil Company ("**Rosneft**") is our primary competitor in Russia. The key activities in which we face competition are, among others:

- acquisition of exploration and production licences at auctions or tenders conducted by governmental authorities;
- acquisition of other companies which may already own licences or existing hydrocarbon producing assets;
- participation in international projects for prospecting and exploration and development of oil and gas fields;
- engagement with third-party service providers whose capacity to provide key services may be limited;
- purchase of capital equipment that may be scarce;
- employment of qualified and experienced personnel;
- access to critical transportation infrastructure;
- acquisition of existing retail outlets or of sites for new retail outlets; and
- marketing and sale of crude oil, oil products and gas.

Additionally, we may encounter competition from suppliers of unconventional energy sources and suppliers of alternative energy sources, including renewable energy sources such as solar power or wind generated power, for example, as a result of high hydrocarbon prices, public policy measures or potential depletion of hydrocarbon reserves.

Our failure to compete effectively could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We face foreign exchange and inflation risks that could materially adversely affect our business, financial condition and results of operations.

A substantial part of our revenues is either denominated in U.S. dollars or euro or is correlated to some extent with U.S. dollar oil prices, while most of our costs (other than debt service costs and costs that are linked to U.S. dollar oil prices, such as mineral extraction taxes and export duties) are incurred in Russia and denominated in rubles. Our results of operations are, therefore, significantly affected by the relative movements of inflation and exchange rates. In particular, our operating margin is generally adversely affected by the appreciation of the ruble against the U.S. dollar because this will generally cause our revenues to decrease in ruble terms relative to our costs. In addition, most of our debt service costs are denominated in U.S. dollars, and the depreciation of the ruble against the U.S. dollar will generally cause our debt service costs to increase in ruble terms. The ruble has historically been subject to significant volatility, including external geopolitical factors, volatility in oil prices and other factors. See "*Presentation of Financial and Other Information—Currency Presentation and Exchange Rate Information*" for more information on the currency exchange rates.

Over the past five years, the ruble has fluctuated significantly against the U.S. dollar, from RUB 49.18 to a U.S. dollar on 20 February 2015, to RUB 83.59 to a U.S. dollar on 22 January 2016, to RUB 61.91 to a U.S. dollar on 31 December 2019, according to the official exchange rates published by the CBR. In 2014, the CBR introduced a floating exchange rate regime with limited currency interventions. In general, the exchange rate is expected to continue to be volatile.

In the past, the Russian economy has experienced high levels of inflation. According to Rosstat, the consumer price index in Russia in 2019, 2018 and 2017 was 3.0%, 4.3% and 2.5%, respectively. Our operating margins could be adversely affected if the inflation of our ruble costs in Russia is not balanced by a corresponding devaluation of the ruble against the U.S. dollar or an increase in oil prices. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Main Macroeconomic Factors Affecting Our Results of Operations—Changes in Ruble Exchange Rate and Inflation*” for more information regarding ruble inflation and movements in U.S. dollar/ruble exchange rates.

We currently do not comprehensively hedge our exposure to foreign currency rate changes. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk*” for discussion of how recent foreign exchange movements have impacted our business and of our hedging policies.

The ruble also remains largely non-convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of rubles into other currencies, but it is limited in size and is subject to rules limiting or prohibiting such conversion. From 31 December 2015 to 31 December 2019, Russia’s foreign currency and gold reserves increased from \$368.4 billion to \$554.4 billion, according to the CBR. Although Russia’s foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, they have decreased in the past, and there can be no assurance that the currency market will not deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The Russian Government and the CBR may impose additional requirements governing currency operations, as they have done in the past. If these restrictions were re-introduced, they could prevent or delay any operations outside the Russian Federation that we may want to pursue. Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross-defaults.

Certain insiders directly or indirectly own, or are beneficiaries of, significant amounts of shares in LUKOIL, which may allow them to exercise material influence over our management and business.

As of 31 March 2020, LUKOIL’s President, Vagit Alekperov, and Vice President for Strategic Development, Leonid Fedun, owned, directly or indirectly, or are beneficiaries of (including through family trusts and mutual funds), 28.22% and 9.28%, respectively, of our share capital. Together with other members of LUKOIL’s Board of Directors and Management Committee, they collectively owned, directly or indirectly, or are beneficiaries of (including through family trusts and mutual funds), approximately 39.01% of LUKOIL as of 31 March 2020. As such, these insiders may exercise material influence over LUKOIL’s management and affairs, including:

- the composition of the Board of Directors and, through it, any determination with respect to LUKOIL’s business direction and policies, including the election and early removal of the members of the Management Committee;
- the determination and allocation of business opportunities that may be suitable for us;
- any determinations with respect to mergers, acquisitions or other business combinations;
- acquisition or disposition of assets;
- financing arrangements; and
- the incurrence of debt, the pledging of our assets and the use of proceeds from any debt financing.

Their interests may not always be aligned with the interests of LUKOIL or the interests of our other shareholders or holders of our other securities, including the notes.

We may not be able to finance our planned capital expenditures.

Our business requires significant capital expenditures, including in exploration and development, production, transportation and refining, and to meet our obligations under environmental laws and regulations. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Investing Activities*”, “*—Off Balance Sheet Arrangements*” and “*—Contractual Obligations*” for information about our capital expenditures and commitments.

We rely on our cash flows from our operating activities and on external sources, including bank borrowings and offerings of debt or equity securities in the Russian and/or international capital markets, to finance our capital expenditures. If our cash flows decrease or we are unable to raise the necessary financing on favourable terms or at all, we will have to reduce our planned capital expenditures. In addition, with respect to some of our projects, especially outside Russia, we depend on financing from our partners who may be unable to finance their part of planned capital expenditures. Any such reduction or shortfall could materially adversely affect our ability to expand our business and, if the reductions are severe enough, could materially adversely affect our ability to maintain our operations at current levels. If any of these risks were to materialise, it could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Our debt service obligations may adversely affect our cash flow.

We currently have, and will continue to have upon the completion of the issuance of the notes, certain amounts of outstanding indebtedness, including other previously issued notes and our obligations under existing credit arrangements. We may seek additional financing in the future through the placement of additional bank or capital markets financing. We may also obtain working capital lines of credit, additional long-term debt, vendor financing and capital lease arrangements. We may not be able to generate enough cash, or we may be unable to obtain additional financing on favourable terms or at all, to pay the principal, interest and other amounts due under all of our indebtedness.

There can be no assurance that we will be able to meet our debt service obligations, including our obligations under the notes. Any inability to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we would be in default under the terms of our indebtedness, which would permit the holders of such indebtedness to accelerate the maturity of such indebtedness and could cause defaults under our various indebtedness, including the notes. Such defaults could delay or preclude payments of interest or principal on our indebtedness, including the notes.

We may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations.

We incur and expect to continue to incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. See "*Business—Environment, Health and Safety—Environment*" for more information.

In 2019, we approved the LUKOIL Group environmental safety programme for 2019-2021, aimed at improving our environmental monitoring system and pipeline repair works, increasing our associated petroleum gas utilisation rate and minimising any negative environmental impacts caused by our operations. Environmental protection costs incurred by the Group have been, and in the future may be, significant. In 2019, our environmental protection costs were RUB 35.9 billion (including RUB 30.0 billion of capital expenditures). Further, there can be no assurance that our environmental safety programme or any environmental safety measures implemented in connection with such programme will protect us from negative environmental impacts caused by our operations.

New laws and regulations, the imposition of tougher requirements in licences, increasingly strict enforcement or new interpretations of existing laws, regulations and licences or the discovery of previously unknown contamination may require us to modify our operations or require further expenditures. These expenditures may include expenditures to install pollution-control equipment, perform site clean-ups and pay fines or make other payments for discharges or other breaches of environmental standards. Our operations could also expose us to civil claims by third parties for alleged liability resulting from contamination of the environment or personal injuries caused by release of hazardous substances. The expenditures associated with environmental pollution can be substantial. In addition, we may be required to modify, curtail or cease certain activities or implement temporary shutdowns of facilities, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee. See "*Regulation of the Oil Industry in the Russian Federation – Gas Flaring Operations*" for information on the charges for gas flaring operations.

Continually changing and increasingly strict environmental requirements, including those relating to sulphur and aromatic content in motor fuels affect product specifications and operational practices. Currently, all of the fuel produced at our refineries meets applicable Russian domestic quality standards and Euro-5 requirements. However, a risk remains that Russia and other countries in which we operate may introduce more stringent standards for cleaner fuels, which may vary from our current expectations. Although we intend to work closely with the relevant federal and local authorities to understand the timing for any changes in fuel quality standards, if environmental requirements change, especially in Russia or the European Union, our refineries may not, without significant modification and capital expenditures, be able to produce significant quantities of refined products that

meet product specifications in these markets. In addition, our refineries in Europe are subject to stringent regulations relating to the quality of refined product production and environmental protection. As a result, we have had to make substantial investments to upgrade our refineries to comply with such regulations. See “*Business—Refining, Marketing and Distribution—Oil Refining*”. Failure to meet certain international standards at our refineries could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

Although the costs of the measures we have taken to comply with environmental regulations have not had a material adverse effect on our business, reputation, financial condition or results of operations to date, in the future, the costs of complying with, or as a result of, health, safety and environmental laws and regulations may increase. Any such increased costs, or any requirements to modify our operations, could materially adversely affect our business, reputation, financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

Regulatory measures designed to address climate change, growing stakeholder concern and the physical effects attributed to climate change, may adversely affect our businesses.

Growing public concern over climate change resulting from rising greenhouse gas (“GHG”) emissions could adversely affect our businesses, including by the addition of stricter regulations that increase our operating costs and capital expenditures, affect product sales and reduce profitability. For example, regulations designed to limit or gradually reduce GHG emissions may negatively affect the development of certain Group projects and the value of certain Group assets.

International agreements and national, regional and local laws, regulatory actions and other initiatives that aim to limit or reduce GHG emissions and climate change are currently in various stages of implementation. For example, the Paris Agreement went into effect in November 2016, and a number of countries are studying and adopting policies to meet their Paris Agreement goals. Some jurisdictions in which we operate have implemented programmes for trading GHG emissions allowances, such as the European Union Emissions Trading System, and other jurisdictions are considering adopting, or are in the process of implementing, laws or regulations to directly regulate GHG emissions through mechanisms such as a carbon tax. The landscape continues to be in a state of development and legal challenge with respect to these measures, making it difficult to predict their ultimate impact on the Group. Russia signed the Paris Agreement in 2016, but accepted it only in September 2019. In December 2019, the Russian Government issued a decree on the adoption of the national action plan for the first stage of adaptation to climate change for the period until 2022. This decree outlines the main principles of state climate change policy and contains a plan for enacting laws and regulations with the aim of preventing GHG emissions and climate change. In March 2020, the Russian Government prepared a draft Strategy for Sustainable Development with Low Levels of Greenhouse Emissions until 2050. The draft sets out GHG emission reduction measures and a plan of gradually decreasing levels of GHG emissions until 2050. It is currently difficult to predict what effect the Russian Government’s measures to meet the Paris Agreement goals would have on LUKOIL.

Furthermore, our business operates in varied locales where the potential physical impact of climate change, including changes in weather patterns, is highly uncertain and may have a material adverse effect on our business, financial condition and results of operations. See “—*Our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses*” for more information on the impact of weather and climate on our business. The possible physical effects of climate change that could harm our operations include melting of permafrost and an increasing scarcity of water resources which may negatively affect certain of our operations and extreme weather events which may damage our facilities.

We are exposed to potential losses and liabilities arising from operational catastrophes, fires or industrial accidents.

Exploration for, the production of, the transportation of and any other operations with hydrocarbons and their refined products are hazardous and dangerous. Any breach of state or local company’s regulations on health, safety and environment, as well as any natural disaster, operator error or other occurrences can result in oil spills, gas leaks, loss of containment of hazardous materials, irregular waste disposal, cratering, fires, equipment failure, loss of well control and other industrial accidents. Failure to manage these risks could result in injury or loss of life, damage or destruction of wells, production facilities, pipelines and other property, damage to the environment and business interruption.

For example, in October 2017, a fire at our Nizhny Novgorod refinery was caused by a breach of environment protection rules by a third-party organisation that provided construction works at our motor fuel reservoir. The fire resulted in fatal injuries to four employees of the third-party organisation. In March 2018, there was an oil

spill at our pipeline in the Perm region, which was caused by the unauthorised connection of a third party to our pipeline. In 2018, a fatality occurred at our Kiyazlinskoye oil field operated by our subsidiary, RITEK, in Tatarstan, which was caused by a work safety violation while pumping melt water from a drainage well. The subsequent investigation resulted in a revision of local policies related to similar activities, extraordinary briefings, personnel tests, targeted inspections and upgrade of drainage wells with additional devices to procure work safety. Lastly, in January 2020 a fire in our Ukhta refinery, which was caused by a breach of technological process for piping additive agents for gasoline to technical reservoirs, resulted in one injury.

All modes of transportation of hydrocarbons contain inherent risks. A loss of containment of hydrocarbons and other hazardous materials could occur during transportation by road, rail, sea or pipeline. Given the high volumes involved, the potential impact of a release on the environment and people could be very significant.

We are exposed to risks regarding the safety and security of our operations. Inability to provide safe environments for our workforce and the public could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to our reputation. Security threats require continuous oversight and control.

Any such catastrophes, natural disasters, incidents or breaches could result in significant losses, which could materially adversely affect our business, reputation, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Our operations are dependent on the reliability and security of our information technology systems.

There are numerous and evolving risks to cybersecurity and privacy from cyber threat actors, including criminal hackers, state-sponsored intrusions, industrial espionage and employee malfeasance. Cyber threat actors are becoming more sophisticated and coordinated in their attempts to access systems and data, including those of cloud providers and third parties. A cyberattack on our information technology (“IT”) systems, which manage our financial position, our operational performance, the reliability of our financial and accounting information, and our ability to fulfil our obligations and operate in a shared information environment, could result in significant financial losses, legal or regulatory violations, reputational harm and legal liability that could have a material adverse effect on our business, financial condition and results of operations. Although we have not experienced significant cyber incidents in the past, we can give no assurance that we or our contractors will not experience cyber incidents of varying degrees in the future.

In addition, the IT systems used to support our management and financial activities are exposed to risks not related to a cyberattack. These risks include the failure of projects aimed at building and upgrading IT systems, faults and failures in IT systems, an inability to obtain IT services from external suppliers, as well as the loss of our market share caused by a lag in deploying innovative digital technology.

We may not be able to detect and prevent fraud or other misconduct by our employees or third parties, which may adversely affect our business, financial condition and results of operations.

We may be exposed to fraud or other misconduct committed by our employees, representatives, joint venture partners, suppliers, customers or other third parties that could subject us to litigation, financial losses and sanctions or other measures imposed by governmental authorities, as well as affect our reputation. Such misconduct could include misappropriating funds, engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities or otherwise not complying with applicable laws or our internal policies and procedures. Our Code of Business Conduct and Ethics applies to all of our employees and defines our commitment to compliance with applicable laws and high ethical standards. However, we can give no assurance that our Code of Business Conduct and Ethics, or our other internal policies, procedures and controls will work effectively at all times or protect us against liability for the actions of our employees, representatives, joint venture partners, suppliers, customers or other third parties. If we are unable to detect and prevent fraud or other misconduct by our employees or third parties, or do so in a timely manner, we may suffer from business disruption, financial loss, intervention by regulatory authorities and reputational loss, which may adversely affect our business, financial condition and results of operations.

The crude oil and natural gas reserves data in this prospectus are only estimates and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

The information concerning the hydrocarbon reserves estimated by LUKOIL included in this prospectus has been prepared in accordance with the definitions contained in SEC Regulation S-X Rule 4-10(a) at that time and has been derived or extracted from the 31 December 2019, 2018 and 2017 reports audited by Miller and Lents. No more recent reserve estimates than those contained in such reports audited by Miller and Lents will be included in this prospectus. For further information on the standards used in preparing estimated hydrocarbon reserves, see “*Presentation of Reserves and Resources*”.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. Estimates of the value and quantity of economically recoverable hydrocarbon reserves, rates of production, future net revenues and the timing of development expenditures are based on existing economic and operating conditions using prices and costs as of the date the estimate is made. In addition, estimates necessarily depend upon a number of variable factors and assumptions, including the following:

- estimated volumes of production, based on historical production data with respect to a relevant area as well as production data with respect to other comparable producing areas;
- interpretation of geological and geophysical data; and
- the assumed effects of regulations by governmental agencies.

Because all reserves estimates are subjective, each of the following items may differ materially from those assumed in estimating reserves:

- the quantities of oil and gas that are ultimately recovered;
- the production and operating costs incurred;
- the amount and timing of future development expenditures; and
- oil and gas prices.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. Results of drilling, testing and production subsequent to the date of an estimate generally result in revisions to that estimate. Accordingly, reserves estimates may be materially different from the quantities of crude oil and gas that are ultimately recovered and, if recovered, the revenue therefrom could be less, and the costs related thereto could be more, than estimated amounts. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they were based, the quality of the information available and the ability to verify such information against industry standards. The reserves evaluations carried out were based on production data, prices, costs, ownership, geological and engineering data, and other information supplied by us.

In addition, the reserves estimates assume, among other things, that the future development of all of our crude oil and gas fields and the future marketability of our crude oil and gas will be similar to past development and marketability. These economic assumptions may prove to be incorrect. In particular, the economies of Russia, other countries of CIS, the Middle East, West Africa and Latin America are more volatile and subject to more significant and sudden changes than more developed economies, and thus economic assumptions in Russia, other countries of CIS, the Middle East, West Africa and Latin America are subject to a significant degree of uncertainty. Potential investors should not place undue reliance on the forward-looking statements in respect of the reserves estimates or on comparisons of similar reserves data of peer international and domestic companies.

The discounted and undiscounted pre-tax future net revenues included in this prospectus should not be considered as the market value of the reserves attributable to our properties. Our actual pre-tax future net revenues will be affected by factors such as:

- the amount, timing and cost of actual production;
- supply, demand and price for oil and gas;
- cost and availability of transportation; and
- changes in governmental regulations (including taxation).

Additionally, in estimating our proved hydrocarbon reserves we have assumed that the production licences for our Russian fields would be renewed and the fields would continue to be in production until the economic limit of production is reached. See “— *Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*”. If any production licences for our Russian fields are not renewed, our estimated hydrocarbon reserves may materially decrease.

We have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition.

A significant amount of our hydrocarbon production and reserves are located outside Russia. In 2019, international projects accounted for approximately 16.7% of our hydrocarbon production, and as of 31 December 2019, approximately 10.0% of our proved hydrocarbon reserves were located outside Russia. Currently, we have international upstream interests in various countries, including Iraq, Kazakhstan, Azerbaijan, Uzbekistan, Egypt,

Romania, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the United Arab Emirates. In addition, we own refineries in Bulgaria, Romania and Italy and a 45% interest in the Zeeland refinery in The Netherlands. See “—*We may not be able to realise opportunities in Iraq*” and “*Business—Exploration and Production—International Exploration and Production—Iraq—West Qurna-2*” for more information on our interests in Iraq.

We are exposed to significant political, economic and legal risks in some of these countries, which, if they materialise, can considerably complicate our activities in an individual region or even force us to halt our activities in such regions. There has been war, terrorist activity, regime change and civil strife in and around the Middle East and the Caspian region for much of the past three decades. Recent conflicts in Eastern Europe, the Middle East (including Syria) and certain areas of Africa, including in countries in which we operate or have made strategic investments (such as Egypt and Iraq), have resulted in political and economic instability, which in some cases have exposed us to risks that have adversely affected our operating results.

The ongoing and future success of the Group also depends on securing and maintaining a “social licence to operate” from impacted communities and other stakeholders. We believe our operations can provide valuable benefits to surrounding communities, in terms of direct employment, training and skills development, creation of demand for products and services and other community benefits associated with ongoing payment of taxes, royalties and contribution to community development funds. Notwithstanding, communities can become dissatisfied with the Group’s activities. Such dissatisfaction may result in civil unrest, protests, direct action or campaigns against the Group. Any such actions may impact our project costs, production or even project viability.

We may not be able to realise opportunities in Iraq.

In January 2010, we entered into a service agreement for the development and production of the West Qurna-2 oil field in Iraq. Currently, the parties of the project are the Basra Oil Company (as representative of the Iraqi Government) and a consortium of contractors, consisting of a Group company (75% interest) and Iraq’s state-owned North Oil Company (25% interest). The total term of the development and production service agreement is 25 years.

We have invested substantial amounts to develop the West Qurna-2 field. As of 31 December 2019, our capital and operating costs incurred in the project were \$9.2 billion, and the value of compensation crude oil we received in accordance with the development and production service agreement was \$9.2 billion. Our compensation oil production at West Qurna-2 was 11.0 mmbbls (1.6 million tonnes) in 2019.

In 2018, we signed an addendum to the development and production service agreement and the final development plan for the West Qurna-2 project. According to the addendum, planned production is 450,000 bpd from the Mishrif formation and 350,000 bpd from the Yamama formation. Total oil production at both formations is expected to reach 800,000 bpd in 2026. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Operational Highlights—West Qurna-2 Project*” for more information on this project.

Additionally, in June 2012, we, along with the Japanese INPEX Corporation, won a competitive bidding process to obtain a licence to operate in Block 10, which covers 5,500 sq. km and is located in the southern part of Iraq in the Di-Kar and Mutannah provinces. We are the operator of this project with a 60% interest, and INPEX holds the remaining 40% interest. In 2017, the parties signed a field appraisal work plan for the period of 2018-2021, and have started the pre-FEED stage for the development of Eridu field, which was discovered as part of exploration works in 2016. See “*Business—Exploration and Production—International Exploration and Production—Iraq—Block 10*” for more information.

Government intervention, terrorist activity, violent conflict, regional instability, including armed conflict between Iran and the United States and increasing tensions between Iraq and the United States, or other political, economic, legal or other factors may adversely affect our development and operation of oil fields in Iraq. For example, on 5 January 2020, the U.S. President threatened to impose sanctions on Iraq if the Iraqi government forces U.S. troops to withdraw from the country on unfriendly terms. If the U.S. Administration pursues such action it is unclear at this time what specific measures, if any, might be adopted or implemented. Since 2018, the United States has granted a series of waivers to Iraq to continue purchasing electricity and natural gas from Iran. Based on public reports as of the date of this prospectus, the U.S. Administration’s most recent waivers to Iraq for the purchase of natural gas and electricity appear to next expire on 26 May 2020. If the U.S. Administration fails to renew these waivers or imposes some form of sanctions or other restrictive measures concerning Iraq, such actions could have negative implications for LUKOIL’s operations in that country.

If we fail to integrate our acquisitions successfully, our rate of expansion could decline and our business, results of operations, financial condition and prospects could suffer.

We have expanded our operations significantly through acquisitions since being privatised in 1993, both in Russia and internationally, and we expect to continue to do so in the future. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Changes in the Group Structure*” for a discussion of our recent acquisitions. The integration of acquired businesses, including businesses we may acquire in the future, requires significant time and effort of our senior management, who are also responsible for managing our existing operations. Integration of new businesses can be difficult, as, among other reasons, our culture may differ from the cultures of the businesses we acquire, unpopular cost cutting measures may be required and control over cash flows and expenditures may be difficult to establish. In addition, difficulties can arise in retaining key employees crucial to the success of the newly acquired businesses. We can give no assurance regarding our ability to successfully integrate the businesses that we acquire. Further, we may experience higher costs of integration than we anticipated and unforeseen liabilities in connection with these acquisitions, and the synergies and economies of scale from which we expect to benefit through these acquisitions may not be realised in full or at all, any of which may adversely affect our business, financial condition and results of operations.

The success of the Group depends in part upon the efforts and abilities of our senior managers and key personnel and may be affected by shortages of skilled labour.

Our growth and future success depend in significant part upon the continued contributions of a number of our key senior management, in particular our President, Executive Director and Chairman of our Management Committee, Vagit Alekperov, as well as the efforts and abilities of other key personnel, in particular skilled technical personnel in both upstream and downstream activities. We can give no assurance that Mr. Alekperov’s services or the services of other key persons will continue to be available to us, or that we will be able to continue to attract and retain such personnel.

The competition in Russia (and other markets in which we operate) for skilled technical personnel can be intense due to the limited number of qualified individuals. The demand and related costs for skilled employees is expected to continue to increase, reflecting significant demand from other industries and public projects. Continued limited supply of skilled labour in light of an unfavourable demographic situation and continued increases in labour costs could have an adverse effect on our operating results and financial condition.

If the FAS were to conclude that we had conducted our business in contravention of antimonopoly legislation, it could impose administrative sanctions on us.

Russian antimonopoly legislation prohibits anti-competitive behaviour, including abuse of a dominant position, cartels, concerted actions which limit competition and unfair competition. Developments in the Russian antimonopoly law have resulted in stronger state control over market participants.

Some of our subsidiaries from time to time have been found to be in breach of the Russian law “Protection of Competition” (the “**Antimonopoly Law**”) for abusing a dominant position in the relevant markets, for setting monopolistic high prices and for other anti-competitive behaviour. Pursuant to Article 5 of the Antimonopoly Law, a dominant position is found where an entity (or a group of entities) has definitive influence over the general terms of the goods’ turnover in the relevant market, may remove other participants from such markets or may hinder their entry into the market subject to certain other criteria. Some of our Group companies (including some companies in the gasoline and diesel retail, dark and light petroleum products, electric and heat power industries, which operate in various regions of Russia) currently satisfy the dominant position criteria and are thus subject to restrictions under the Antimonopoly Law. Administrative penalties for violating the Antimonopoly Law can be substantial with some of these penalties calculated as a percentage (up to 15%) of the revenue received by an entity from the sale of goods in the relevant market. The Antimonopoly Law also grants the FAS with the power to require entities to perform certain actions, including, among others, to sell products at an exchange and to coordinate with the FAS the detailed requirements for setting out the initial bid for the sale at an exchange. Imposition by the FAS of administrative sanctions or restrictions on our Group could materially adversely affect our business, financial condition and results of operations and, in turn, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee. Court practice relating to contesting decisions of the FAS, in particular in cases regarding abuse of dominant position and taking concerted actions with other market participants, lacks consistency, but often the Russian courts support the position of the FAS and its regional branches.

With a view to advancing and expanding the regulation of the oil sector, in 2016, the FAS prepared a draft of the Federal Law on particularities of Oil and Oil Products Turnover in the Russian Federation. The draft law suggests imposing, among other things, (i) certain restrictions on entities with a dominant position in the relevant automobile gasoline or diesel fuel markets with respect to their ability to combine retail and wholesale sales of automobile gasoline or retail and wholesale sales of diesel fuel; (ii) prohibitions for motor fuel retail sale entities with a market share exceeding 35% of the total volume of the motor fuel sold in an applicable market from increasing their number of retail gasoline stations in that market, whether by purchase, lease or

acquisition of land plots for the construction of new retail gasoline stations; and (iii) requirements affecting entities which own or use motor fuel reservoirs on any other grounds, with the capacity of such reservoirs exceeding 35% of the total capacity of all motor fuel reservoirs located in the territory of the relevant subject of the Russian Federation, to maintain separate records of income and expenses relating to sale of motor fuel and provision of services for the motor fuel storage. Oil companies would also be required to publicly disclose information on the volumes of the extracted oil and of the stock of oil products at oil reservoirs, on the volumes of refined oil and produced oil products, as well as on the stock of oil products at oil refineries.

As of the date of this prospectus, the draft law is still under review and has not been introduced to the State Duma for consideration. Accordingly, the timing for entry into force of the draft law, its potential interpretation by state authorities (including the courts), and its impact on our business and operations, is uncertain. To the extent that any of the above-mentioned proposed amendments become law, they could result in additional restrictions on our business and operations, which (depending on the nature of these restrictions) could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The FAS considers the sale of oil and oil products through commodity exchanges as one of the key components to fostering increased competition. On 12 January 2015, the FAS and the Ministry of Energy of the Russian Federation signed an order which sets forth requirements on minimum volume requirements of oil products, and other categories of goods produced from oil and gas, to be sold on an exchange, and rules of the exchange sales where contracts relating to oil products, and other categories of goods produced from oil and gas, are executed by entities with a dominant position in the relevant commodity markets (the "**Joint Order**"). According to the Joint Order, certain entities with a dominant position must sell minimum amounts of oil and oil products through an applicable commodity exchange. Such minimum amounts are 10% for automobile gasoline, 6% for diesel fuel, 10% for jet engine fuels, 2% for fuel oil and 5% for liquefied petroleum gas for household purposes and automobile transport with such percentages calculated based on the monthly produced volumes by each entity, including entities which are within the same group of companies as the entity with a dominant position. If we are found to be in violation of the Joint Order, we could be subject to penalties, which may adversely affect our business, financial condition or results of operation.

If the FAS were to conclude that we acquired any shares (equity interests) or assets in contravention of antimonopoly legislation, it could impose administrative sanctions on us and/or file a claim seeking invalidation of the transactions related to such shares (equity interests) or assets.

Our business has grown substantially through acquisitions of shares (equity interests) and assets. Certain of these acquisitive activities have required the prior consent of the FAS. If the FAS were to conclude that such activity contravened applicable legislation, it could impose administrative sanctions on us and/or file a claim seeking to invalidate the applicable transactions, which could materially adversely affect our acquisition strategy and, more generally, our business, financial condition and results of operations.

A negative disparity between Russian crude oil and refined product prices and export netback prices may have a material adverse effect on our business, financial condition and results of operations.

We sell a portion of our crude oil and refined products in the Russian market. In early 1995, the Russian Government ceased to regulate domestic prices for crude oil, and Russia developed the export channels of the Transneft pipeline system, as well as other export infrastructure, with sufficient capacity to transport crude oil and refined products not consumed domestically to international markets. As a result of this price deregulation and export infrastructure development, domestic prices for crude oil and refined products in recent years correlated with export netback prices, which are the prices we achieve for exports, minus export duties and transportation costs.

Any disruptions of export channels may result in domestic prices falling substantially below export netback prices. Also, while prices in Russia for crude oil and refined products are generally determined by the market, they are still subject to and may be limited by governmental price control. Furthermore, growing competition in Russia's regional domestic markets may result in downward pricing pressure. Any negative prolonged disparity between Russian prices for crude oil and refined products and export netback prices could have a material adverse effect on our business, financial condition and results of operations.

A change in the blend of the oil transported through the Transneft pipeline network could affect the price we receive for our oil.

Most of our crude oil production is transported through the Transneft pipeline system. In 2019, we exported 168.5 mmbbls (23.0 million tonnes) of crude oil, or 62.0% of our total crude oil exports in 2019, via Transneft. The crude

oil that we transport through the Transneft pipeline network is blended with crude oil of other producers that may differ in quality. Most of our sales of crude oil that we transport through the Transneft system are of the crude oil blend that results from the combination of different types and qualities of crude oil in the system, which is usually referred to as “Urals blend” crude oil. Therefore, the price we get for our oil may be lower than the price that we could get for oil of the same quality if we could transport our crude oil independently or if our crude oil was not blended in the system with crude oil of other producers with higher sulphur content.

In 2013, we began exporting light crude oil through Transneft’s Eastern Siberia-Pacific Ocean (“ESPO”) pipeline, which allows us to sell our light oil as “ESPO crude” (ESPO crude sells at a premium compared to the Urals blend). However, there can be no assurance that we will continue to be included in the export schedule for the ESPO.

Our business operations could be disrupted if our existing and new management information and accounting systems fail to perform adequately.

We depend upon our management information systems, including our Industrial Safety Management System and our Environmental Safety Management System, to conduct our operations. We are also continuously introducing new solutions to support our exploration and development activities and standardising and rationalising the accounting systems used at our subsidiaries. Implementation of any major new systems and enhancements to existing systems could cause disruptions in our operations. If the implementation of our new management information systems is delayed or the systems fail to perform as anticipated, we could experience difficulties in conducting our operations or generating necessary financial and accounting information. Any of these or other systems-related problems could, in turn, adversely affect our financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

Notwithstanding the risk described above, in the event that we experience difficulties in generating financial and accounting information using our management information systems, we believe that we have alternative IT and personnel capabilities to meet our obligations as a listed company. As a result, we believe that our financial systems are sufficient to ensure compliance with the requirements of the FCA’s Disclosure Guidance and Transparency Rules as a listed entity.

We are involved in various legal proceedings that may result in material losses.

We are involved in a number of legal proceedings. Although we do not currently expect a material adverse effect on our financial condition and results of operations because of any proceedings currently known to us, we can give no assurance that we will not incur material losses in connection with any such legal proceedings. Such losses are difficult to predict because of: (i) uncertainty regarding the outcome of the said proceedings; (ii) the occurrence of new developments that we could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as of the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) errors in the estimate of probable future losses. Losses associated with legal proceedings could materially adversely affect our business, reputation, financial condition and results of operations. For information about certain pending legal proceedings that may have, or have had in the recent past, a significant effect on our financial position or profitability, see “Additional Information Regarding the Company—Litigation and Claims”.

A material change in tax legislation in any of the jurisdictions in which we operate could have a material adverse effect on our business, financial condition and results of operations.

As a result of general economic conditions in the countries in which we operate and those in which we currently make, or may in the future make, sales, tax legislation in these countries may be changed in order to increase tax revenues. A material change in tax legislation in any of the jurisdictions in which we operate (or those in which we currently make, or may in the future make, sales) could have a material adverse effect on our business, financial condition and results of operations.

We do not carry insurance against all potential risks and losses and our insurance might be inadequate to cover all of our losses or liabilities.

We only have limited insurance coverage for potential losses or liabilities that may arise in connection with our business, including property damage, work-related accidents, business interruption, occupational disease, natural disasters and environmental contamination. Such events may result in loss of revenue, increased costs or other losses or liabilities, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Business Operations in Emerging Markets

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal, financial and tax advisors before making an investment in the notes.

Emerging markets, such as Russia, are subject to greater risks than more developed markets, including significant political, legal and economic risks.

Investors in emerging markets, such as Russia, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, legal, reputational and economic risks. Emerging economies, such as the Russian economy, are subject to rapid change, and the information set out in this prospectus may become outdated relatively quickly. Moreover, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country tends to adversely affect prices in debt and equity markets of other emerging market countries, as investors move their money to more stable, developed markets.

Financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment, which may, in turn, adversely affect the economies in those countries. During such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Adverse economic developments of the kind described above may materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Salary increases in Russia (or other countries in which we operate) may reduce our profit margins.

Salaries in Russia (and in certain other countries in which we operate) have historically been significantly lower than salaries in the more economically developed countries of North America and Europe for similarly skilled employees, although they have increased significantly in recent years. Salaries in Russia (and other countries in which we operate) may increase rapidly, and our margins could be reduced. Unless we are able to continue to increase the efficiency and productivity of our employees in line with, or at a faster rate than, the rate of salary increases, salary increases could have a material adverse effect on our business, results of operations, financial condition and prospects.

Credit risks of our customers in emerging markets are higher than those of our customers in developed countries.

We focus on the selection of reliable partners for our business in terms of their ability to pay in a timely manner for the products purchased from us and perform their obligations in strict compliance with our existing agreements. However, our business is exposed to the risk that the amounts owed by our customers for products sold or services rendered will not be paid when due, and that some of them may not be able to timely and fully perform their obligations. In such cases we seek to resolve any disputes and recover amounts owed to us in conformity with the laws of the jurisdictions where we operate and with established business practices. We note, however, that in the markets of developed countries it is less cumbersome to settle such disputes as compared to emerging markets, due to better developed laws and financial services markets. In developed markets, corporate debts are a financial asset which may be used as security, pledged, sold and purchased; therefore, such debts have high liquidity. In emerging markets, this practice is not as developed and the recovery of overdue debts can be a lengthy process. As a result of longer periods which we may need to recover overdue debts from our customers in emerging markets, we may need substantial financial resources to meet our financial obligations and maintain the financial stability of our subsidiaries, which may adversely affect our business, financial condition and results of operations.

Risks Relating to the Russian Federation

We were founded in Russia, most of our assets are located in Russia and a significant portion of our revenues are derived from Russia. There are certain risks associated with an investment in Russia.

The Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty.

We are subject to a broad range of taxes and other compulsory payments and levies imposed at the federal, regional and local levels, which include, among others, corporate income tax, mineral extraction tax, value added tax, excise duties, export duties, compulsory insurance payments and property tax, and we are one of the largest sources

of tax revenue to the federal authorities and to the regional and local authorities in those regions and locations in which we operate.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement in practice. For example, the Ministry of Finance of the Russian Federation and the Russian tax authorities sometimes interpret tax laws and regulations differently. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retrospectively. Nonetheless, in some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. In practice, Russian tax authorities generally interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings to defend their position against the Russian tax authorities. As a result of this, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

It is possible that new tax revenue raising measures could be introduced. The possibility exists that the Russian authorities may impose arbitrary and/or onerous taxes, levies, fines and penalties in the future, which could adversely affect our business. Recent developments show that the Russian tax authorities are scrutinising various tax planning and mitigation techniques used by taxpayers, including international tax planning. Although it is unclear how any new measures could operate, and is unclear how the Russian tax authorities could interpret and apply the new tax provisions, the introduction of such measures and provisions could affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

Tax declarations are subject to review and inspection by a number of Russian tax authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, in the course of on-site tax audits, taxpayer business activity remains subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. However, under certain circumstances, tax audits can go beyond this general three-year term or a repeat tax audit could be conducted by the tax authorities provided certain conditions are met. Therefore, previous tax audits do not necessarily preclude subsequent tax claims relating to the audited period. Furthermore, the general three-year statute of limitations for tax offences has certain exceptions in Russia and may not preclude subsequent tax claims.

In 2017 anti-avoidance rules were introduced into Russian Tax Code by Article 54.1 of the Russian Tax Code. The new rules (a) establish the framework within which taxpayers enjoy tax benefits and (b) prohibit any wilful misconduct resulting in a non-payment or underpayment of taxes by misrepresenting information on commercial events and objects of taxation. In addition to that prohibition, taxpayers may reduce their tax base and/or payable amount of tax if they can evidence that (i) tax avoidance is not the primary purpose of a transaction and (ii) the contractual obligation is performed directly by the party named in the contract or by a person to whom such obligation has been transferred by contract or by law. Due to the fact that the court practice related to application of the new rules is still inconsistent, no assurance could currently be given as to the exact effect such rules may have on taxpayers, including Russian companies of the Group.

All the aforesaid evolving and uncertain tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including management's resources. Furthermore, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under, or the trading price, of the Notes.

Russian transfer pricing rules may adversely affect the Group's business, financial condition and results of operations.

The Russian transfer pricing legislation currently in effect allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. Due to a number of uncertainties in the interpretation of Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge prices of transactions of the Group and make adjustments, which could adversely affect the Group's tax position, unless the Group is able to justify the use of market prices with respect to "controlled" transactions, supported with the appropriate transfer pricing documentation. Consequently, the imposition of additional tax liabilities under the Russian transfer pricing legislation, in case the Russian tax authorities challenge the level of prices applied by the Group, could have a material adverse effect on the Group's tax position, business, results of operations or financial condition.

Russian “consolidated taxpayer” rules applied by the Group are subject to significant uncertainty.

A concept of a “consolidated taxpayer” was incorporated into the Russian Tax Code and became effective on 1 January 2012. There are several requirements that must be met for a group to be considered a “consolidated taxpayer” (the Tax Group) under this legislation, including meeting revenue thresholds and the amount of corporate income tax payable by the Tax Group. The rules introduced consolidated tax reporting, which enables Russian companies that form a Tax Group to consolidate financial results for corporate tax purposes. Intragroup transactions are to be included in the consolidated tax base and are arguably not subject to transfer pricing control. We have created a Tax Group consisting of the Group’s Russian entities. Previously registered agreements are effective until their termination date, but no later than 1 January 2023. There can be no assurance that this consolidated taxpayer regime which is currently valid through 31 December 2022, or our creation of the Tax Group under this regime, will not be challenged in future due to, among other things, the lack of interpretive guidance and precedent by the Russian tax authorities and courts related to this taxpayer regime. If any such challenge were effective, it could result in increased taxes, which in turn could have a material adverse effect on our business, revenues, financial condition, results of operations and prospects.

The Russian concept of permanent establishment may subject the Group to material tax liabilities.

The Group includes companies incorporated and operating outside Russia. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the permanent establishment concept under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia and be liable to Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. There are precedents where the Russian tax authorities sought to challenge the Russian tax status of foreign companies and some of their attempts were successful. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or courts to their interpretation and application, we might become subject to additional taxation in Russia in respect of the operations of foreign companies of the Group.

Although the Group intends to conduct its affairs so that foreign entities of the Group are not treated as having a permanent establishment in Russia, no assurance can be given that activities of these foreign entities will not be treated as creating a permanent establishment in Russia and subjected to Russian tax in a manner similar to the taxation of a Russian legal entity. Only the amount of the income of a foreign entity that is attributable to its permanent establishment should be subject to taxation in Russia.

The amount of the income of a foreign entity that is attributable to its permanent establishment is to be measured based on the functions carried out by a Russian permanent establishment, accepted economic (commercial) risks attributable to such activity and the assets deployed. In order to determine the amount of income of a foreign entity that is attributable to a permanent establishment in Russia, the Russian tax authorities may perform a functional analysis of an activity performed by a foreign entity in the territory of Russia. However, the practice of application of these rules is not developed. There is, therefore, a risk that the Russian tax authorities might seek to assess Russian tax on the entire amount of income of a foreign company attributable to its permanent establishment.

Recent events in the Russian Federation suggest that the Russian tax authorities may be more actively seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Having a permanent establishment in Russia may also lead to other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty, a potential effect on VAT and property tax obligations. There is also a risk that penalties could be imposed by the Russian tax authorities for the failure to register a permanent establishment with the Russian tax authorities. Any such taxes or penalties could have a material adverse effect on the business, financial condition, results of operations or prospects of the Group.

Further, starting 1 January 2015 the concept of tax residency in Russia for non-Russian legal entities has come in effect which provides for a possibility to tax foreign legal entities which have a place of management in Russia provided certain conditions are met (see “—*Russian anti-offshore policy may have an adverse impact on the Group’s business, financial condition and results of operations*”). It should be noted that the respective practice of application of these rules has not yet been developed. There can be no assurance that the interpretation of these rules applied by the Group will not be challenged in future and no assurance can be given that activities of foreign entities will not be treated as creating tax residency in Russia, which could result in taxation of foreign legal entities of the Group in a manner similar to the taxation of a Russian legal entities, thus, increasing the amount of taxes payable by the Group, which in turn could have a material adverse effect on our business, revenues, financial condition, results of operations and prospects.

Russian anti-offshore policy may have an adverse impact on the Group's business, financial condition and results of operations.

The Russian Federation is actively involved in introducing measures against tax evasion by the use of low tax jurisdictions and other aggressive tax planning structures. Starting 1 January 2015 the following rules (concepts) were introduced into the Russian Tax Code: (1) "controlled foreign companies" rules pursuant to which undistributed profits of organisations as well as foreign structures not being legal entities, owned and/or controlled by Russian tax residents (both legal entities and individuals) should be subject to taxation in Russia provided certain criteria are met; (2) the concept of tax residency in Russia for non-Russian legal entities, whereby foreign legal entities would be deemed Russian tax residents if their place of management is located in Russia; and (3) the beneficial ownership concept for the purposes of application of double tax treaties, which provides that treaty relief should only be available to foreign income recipients which have actual right to receive income (i.e., they qualify as a "beneficial owner of income").

In addition, on 7 June 2017, 68 jurisdictions, including Russia, signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "MLI"). Several additional jurisdictions have signed the MLI since then. A number of jurisdictions have expressed their intention to sign the MLI. The MLI sets forth additional requirements for the application of the double taxation treaty benefits, including the reduced tax rates. It is expected that changes to specific bilateral treaties would come into effect after the parties to the treaties deposit their instruments of ratification, accepting or approving the MLI, subject to an additional phase-in period. The MLI entered into force for the Russian Federation on 1 October 2019. As per the official announcement of the Russian Ministry of Finance published on its website, the entry into effect of the provisions of the MLI in relation to Russian double tax treaties has been delayed at least until 2021. The MLI-related changes, when implemented, might negatively affect the availability of certain double taxation treaty benefits to Non-Resident Noteholders.

Introduction and further evolution of these new rules and concepts is likely to impose additional administrative burdens on the Group. No assurance could currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including additional tax liability, if any) on the Group.

Instability in the Russian economy could materially adversely affect our business, financial condition and results of operations.

For the year ended 31 December 2019, 36% of our revenues (including export sales from Russia to group companies and third parties) were derived from our operations in Russia. In addition, as of 31 December 2019, approximately 90.0% of our proved hydrocarbon reserves were located in Russia. As a result, any instability in the Russian economy could materially adversely affect our business, financial condition and results of operations. Since the dissolution of the Soviet Union, the Russian economy has been subject to abrupt downturns and has experienced at various times:

- volatility and/or significant declines in gross domestic product ("GDP");
- hyperinflation;
- high interest rates;
- an unstable currency;
- high government debt relative to GDP;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- tax evasion;
- high share of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- unstable credit conditions;

- high dependence on global prices for raw materials; and
- significant increases in unemployment and underemployment.

In December 2019, the emergence of a new strain of the coronavirus (COVID-19) was reported in China that has subsequently spread across China and several other countries and regions, including Russia. As a result of the outbreak, travel restrictions, quarantines, city and country lockdowns and similar measures taken by governments and companies around the world have been introduced which have affected the global commerce. In Russia, in March 2020, the Russian Government placed a country-wide lockdown, introducing a "non-working week" to slow the spread of coronavirus (COVID-19). Due to the uncertain and rapidly evolving outbreak of the coronavirus (COVID-19), it is hard to predict how it may impact on Russian economy and our business. We continue to monitor the ongoing situation and may adjust our current policies and practices as more information and guidance become available.

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to volatility in global commodity prices. The price of oil has been particularly volatile in recent years significantly decreasing in the second half of 2014 from \$112.36 per barrel of Brent Crude oil on 30 June 2014 to \$55.27 per barrel on 31 December 2014 and continued to decrease in 2015 reaching \$37.28 per barrel on 31 December 2015. Although Brent crude oil prices recovered to \$55 per barrel as of 31 December 2016 and were relatively stable in 2017, 2018 and 2019 (with a high of \$86.16 on 4 October 2018 and a low of \$42.28 on 20 June 2017). In the three months ended 31 March 2020, largely due to the coronavirus (COVID-19) outbreak and the prior lack of agreement on production limits among OPEC+ countries, the Brent crude oil price dropped to a low of \$21.1 on 27 March from a high of \$69.96 on 6 January. Additionally, in part due to the market response to the 12 April 2020 OPEC+ agreement, as well as due to a precipitous decline in certain U.S. oil price benchmarks, Brent crude dropped to a low of \$15.98 on 22 April 2020. See "*—Risks Relating to Our Business and the Oil and Gas Industry—A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations*".

Following the stabilisation of the financial market, the CBR has gradually reduced the key rate, lowering it from 17.0% in 2014 to 7.25% in March 2018 and then increasing it to 7.75% in December 2018. In 2019, the CBR reduced the key rate several times from 7.50% to 6.50%. From 16 December 2019, the key rate was 6.25% and was subsequently lowered to 6.00% on 7 February 2020. As a result of high volatility in the financial markets generally, as well as the CBR's actions in particular, the cost of funding for Russian companies has also been volatile. However, there can be no assurance that the CBR will not increase the key rate in response to further volatility of the ruble or other macroeconomic factors. See "*—Risks Relating to Our Business and the Oil and Gas Industry—We face foreign exchange and inflation risks that could materially adversely affect our business, financial condition and results of operations*" for information on recent inflation and foreign exchange fluctuations in Russia.

Moody's, Fitch and Standard & Poor's downgraded the credit ratings of the Russian Federation in 2015, primarily as a result of the significant decline in global oil prices, the negative impact on the Russian economy from the ongoing crisis in Ukraine and the related sanctions imposed on certain Russian individuals and legal entities. The rating agencies also downgraded the credit ratings of numerous Russian companies, including the long-term implied credit rating of LUKOIL, following the sovereign credit rating downgrades. Credit rating downgrades with respect to the Russian Federation and LUKOIL may have a negative impact on the liquidity and trading price of the notes. See "*Business—Credit Ratings*" for more information about the current credit ratings with respect to LUKOIL.

The ratings agencies have subsequently upgraded the credit ratings and/or outlooks of the Russian Federation and several Russian companies, including LUKOIL, between 2016 and 2019, citing somewhat improved economic prospects and policy-making in Russia. On 8 February 2019, Moody's upgraded its sovereign debt rating for the Russian Federation at "Baa3" and revised its outlook from positive to stable. On 23 February 2018, Standard & Poor's affirmed its sovereign debt rating for the Russian Federation at "BBB-" and revised its outlook from positive to stable. On 9 August 2019, Fitch upgraded its sovereign debt rating for the Russian Federation to "BBB" and revised its outlook from positive to stable. However, there can be no assurance that a further economic slowdown in Russia or further credit ratings downgrades (resulting from sanctions imposed against Russia, the coronavirus (COVID-19) outbreak, a drop in hydrocarbon prices or otherwise) will not have a negative effect on investors' confidence in the Russian markets or economy or the ability of Russian-based groups to raise capital in the international markets, any of which, in turn, could have a material adverse effect on our business or the Russian economy. A deterioration of the Russian economy could negatively impact our revenue and could materially adversely affect our business, financial condition, results of operations and prospects. See "*—Risks Relating to Our Business and the Oil and Gas Industry—Sanctions, export controls and other related actions and events, as*

well as political and economic uncertainty, may continue to adversely impact our business, financial condition, results of operations and prospects” for more information on the situation in Ukraine and Crimea and related sanctions, “—A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations” for more information on hydrocarbon prices, and “—Public health crises and threats could have a material adverse effect on our business, financial condition and results of operations” for more information on risks from public health crises, such as coronavirus (COVID-19).

Political and governmental instability could materially adversely affect our business, financial condition and results of operations.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts among executive, legislative and judicial authorities, which negatively affected the Russian Federation’s business and investment climate. Since 2000, the political situation in Russia has become generally more stable, which accelerated the reform process and made Russia more attractive to investment. Such stability, however, has been negatively affected by the global financial and economic crisis and the economic sanctions imposed by the U.S., EU and certain other countries. See also “—Risks Relating to Our Business and the Oil and Gas Industry—Sanctions, export controls and other related actions and events, as well as political and economic uncertainty, may continue to adversely impact our business, financial condition, results of operations and prospects” for more information on sanctions. Moreover, the State Duma elections in 2011 and the Presidential elections in March 2012 caused public protests alleging voting irregularities and demanding political reform. In 2018, there were public protests against the increase of the retirement age. In January 2020, the Russian President approved a new Prime Minister and suggested amendments to Russia’s Constitution. The relevant draft law on amendments to the Russia’s Constitution was approved by both the State Duma (the lower house of the Russian Parliament) and the Federation Council (the upper house of the Russian Parliament). In March 2020, the Russian President signed the draft law and announced to hold a nationwide vote on the amendments to the Russia’s Constitution. If more than 50% of citizens vote for the amendments to the constitution, such amendments will enter into force. In general, the proposed amendments to the Russia’s constitution are as follows: (i) the same individual may not take a position of the Russian President more than two times; (ii) decisions which are taken by international organisations under an international treaty and which contradicts the Russia’s constitution are not enforced in Russia; (iii) the Russian State Duma is entitled to approve candidates to the Prime Minister, deputy Prime Ministers and federal ministers; (iv) state officials holding senior positions must not have citizenships or residence permits in other countries, bank accounts in foreign states and must be subject to certain other conditions; (v) minimum wages in Russia must be not lower than the minimum level of the cost of living; and (vi) certain other amendments. Initially, the nationwide voting was scheduled on 22 April 2020; however, due to the coronavirus (COVID-19) outbreak, it was postponed until further announcement.

Any significant increases in political instability and future political reforms could result in a worsening of the overall economic situation, including capital flight and a slowdown of investment and business activity, which could have a material adverse effect on the value of the notes in particular, and our business, financial condition, results of operations and prospects in general.

The involvement of the Russian Federation in domestic or foreign conflicts could adversely affect our business, financial condition and results of operations.

Ethnic, religious, historical and other divisions in Russia have, on occasion, given rise to tensions and, in certain cases, violence and military conflict, both internally and with other countries. For example, armed conflicts have occurred in the Chechen Republic in the recent past. Moreover, in 2008, Russia and Georgia were involved in an armed conflict, which ended with Russian recognition of the independence of South Ossetia and Abkhazia. Such events have resulted in heightened volatility, significant overall price declines in Russian stock exchanges, capital outflow from Russia and temporary closures of international capital markets to Russia. In addition, Russia's involvement in the armed conflict in Syria since September 2015 has occasionally increased tensions between Russia and certain other countries, including Turkey, and may continue to do so in the future.

The emergence or escalation of any tensions in Russia or with neighbouring countries could negatively affect business relations among these countries, relationships with Western countries and the economy of Russia. Such tensions, conflicts and violence could also negatively affect the liquidity, stability and trading price of the notes and our ability to raise debt or equity capital in the international capital markets. See also “—Risks Relating to Our Business and the Oil and Gas Industry—Sanctions, export controls and other related actions and events, as well as political and economic uncertainty, may continue to adversely impact our business, financial condition, results of operations and prospects”.

The Russian banking system is still developing, and another banking crisis in Russia or international sanctions could place severe liquidity constraints on our business, materially adversely affecting our business, financial condition and results of operations.

Russia's banking and other financial systems are less well developed or regulated compared to those in developed countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. Some Russian banks do not meet international banking standards, and the transparency of the Russian banking sector often does not meet internationally accepted norms.

The CBR's supervisory/control mechanisms may be in certain cases insufficient to timely identify non-compliance with banking legislation. As part of a gradual consolidation process, which started in 2014, Russia's larger banks have acquired smaller banks and increased their market share, and banks with stronger credit profiles have merged with distressed banks. In connection with this consolidation, the CBR has revoked banking licences from a substantial number of Russian banks. The CBR's orders on revocation of such licences state that the banks were in breach of banking laws and regulations and were found to have false statements in their reports. The revocations have raised some concerns about the stability of the Russian banking system and liquidity on the domestic market.

The credit crisis that began in the United States in the autumn of 2008 resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Russian banks experienced difficulties with funding on domestic and international markets. Credit ratings of several banks were lowered. In addition, in 2014-2017, the deterioration of economic conditions, along with other circumstances, led to the failure or bailout of some Russian banks and to significant liquidity constraints for others. The CBR has estimated that bailouts of PJSC Bank Otkritie Financial Corporation, Promsvyazbank and PJSC B&N Bank announced in the second half of 2017 may require over 1 trillion rubles (\$17.4 billion as of 31 December 2017).

Furthermore, sanctions have been imposed by a number of countries against certain Russian banks, financial institutions and companies, as well as certain Russian individuals who hold interests or positions in such banks, financial institutions and companies. Among other measures, the United States and the European Union have imposed sectoral sanctions on certain major Russian financial institutions. See also "*—Risks Relating to Our Business and the Oil and Gas Industry—Additional sanctions imposed by the United States and the European Union, and other related actions and developments may adversely affect our business, financial condition, results of operations and prospects*" for more information regarding these sectoral sanctions and sanctions authorized by DASKA if it is enacted into law. It is difficult to predict the full impact of sanctions on the Russian banking sector over time and whether such sanctions will be expanded in the future; however, there is a risk that Russian banks could be unable to refinance their existing debt or that such refinancing may become more expensive, and/or that Russian banks could be unable to issue loans in amounts necessary for borrowers, and/or that the cost of borrowing could increase significantly for borrowers. Because we rely substantially on financing from financial institutions, any of these circumstances could negatively impact our ability to raise capital or refinance our existing indebtedness or otherwise have a material adverse effect on our business, financial condition, results of operations and prospects.

These weaknesses in the Russian banking sector make the sector more susceptible to market downturns or economic slowdowns including due to defaults by Russian borrowers that may occur during such market downturn or economic slowdown. A banking or liquidity crisis or the bankruptcy or insolvency of the banks which lend to us or in which we hold our funds or use for banking transactions could have a material adverse effect on our business, financial condition, results of operations, and prospects.

The Russian legal system and Russian law are still at a development stage and may create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required by a market economy. The relatively recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability of laws in doubt and result in ambiguities and inconsistencies. A number of fundamental Russian laws, including substantial changes in the Civil Code of the Russian Federation, the Russian law "On Joint Stock Companies" (the "**JSC Law**") and the Russian law "On Securities Markets", that became effective within the past five to 10 years, remain untested. Among the risks of the current Russian legal system are:

- inconsistencies among federal laws; among decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities and among regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;

- gaps in the regulatory structure due to delay or absence of implementing legislation;
- uncertainties in interpretation of Russian legislation and corporate law generally by Russian courts;
- difficulties in enforcing court judgments in practice; and
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as the suspension or termination of our licences.

These weaknesses could affect our ability to enforce our rights under contracts and/or subsoil licences, or to defend ourselves against claims by others in respect of our Russian subsidiaries, and could affect enforcement of any rights of holders of the notes against the Issuer or LUKOIL. Furthermore, we can give no assurance that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not adversely affect foreign investors (or private investors generally).

The judiciary's lack of independence and relative inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of the notes from obtaining effective redress in a court proceeding.

The independence of the judicial system and its immunity from economic, social and political influences in Russia remains largely untested, and the court system may be generally understaffed and underfunded. Under Russian legislation, judicial decisions are not recognised as a source of law and generally have no binding effect on subsequent decisions. In addition, court claims are often used in furtherance of political and commercial aims, and we may be subject to such claims and may not be able to receive a fair hearing. Enforcement of court judgments in practice also can be very difficult in Russia, and court judgments are not always enforced or followed by law enforcement agencies. All of these factors make judicial decisions in Russia difficult to predict and make effective redress uncertain.

Russia is not a party to multilateral or bilateral treaties for the mutual enforcement of court judgments with most Western countries, and federal law does not generally provide for the recognition and enforcement of foreign court judgments, although foreign court judgments are sometimes recognised and enforced by Russian courts on the basis of reciprocity, if courts of the country where the foreign judgment was rendered have previously enforced judgments issued by Russian courts. The existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether in the future a Russian court will recognise and enforce a judgment issued by a foreign court on the basis of reciprocity. Consequently, should a judgment be obtained from a foreign court, it may not be given direct effect in Russian courts.

Russia (as a successor to the Soviet Union) is a party to the New York Convention. A foreign arbitral award obtained in a state which is a party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and in compliance with Russian civil and arbitration procedures and other procedures and requirements established by Russian legislation). The Arbitration Procedure Code of the Russian Federation is in conformity with the New York Convention and thus has not introduced any substantial changes relating to the grounds for refusing to recognise and enforce foreign arbitral awards and court judgments. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Russian Government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. For example, the legislation provides for fair compensation for property that is expropriated or nationalised. However, there can be no assurance that such protections would be enforced in practice, due to a lack of experience enforcing these provisions, political pressure or otherwise. In addition, land may be subject to compulsory purchase by the state for its own needs or as a penalty for the inappropriate use of the land. It is not clear from Russian law how losses from nationalised assets would be calculated or whether it would be possible to challenge (and therefore prevent) the confiscation of such assets. Expropriation or nationalisation of any of the Group's members or assets in Russia or in the other countries in which we operate, potentially with little or no compensation, could have a material adverse effect on our business, results of operations or financial condition and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Selective or arbitrary government action could materially adversely affect our business, financial condition and results of operations.

Governmental authorities in Russia have a high degree of discretion and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. In addition, governmental authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local government entities have used common defects and oversights in documentation and business and regulated activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often for political purposes. Selective or arbitrary government action directed at us or preferential treatment by the government of any of our competitors (in Russia or in the other countries in which we operate) could have a material adverse effect on our business, financial condition and results of operations.

Laws restricting foreign investment could materially adversely affect our business, financial condition and results of operations.

Federal Law No. 57-FZ “On procedure for carrying out foreign investments into enterprises which have strategic importance for ensuring defence and security of the State”, dated 29 April 2008, as amended (the “**Law on Strategic Enterprises**”), places restrictions on foreign investors and/or groups of persons of which a foreign investor is a member, in connection with their participation in charter capital of entities having strategic importance for ensuring defence and security of the state, and/or the transactions made by them resulting in the establishment of control over such entities. Such transactions may only be made having received prior approval in accordance with the Law on Strategic Enterprises. The activities having strategic importance for ensuring defence and security of the state include, *inter alia*, geological exploration of subsoil and/or exploration and extraction of natural resources from subsoil areas of federal significance. Pursuant to the Law on Strategic Enterprises, any transaction involving acquisition by foreign investors of shares (interests) in an entity having strategic importance for ensuring defence and security of the state and operating at a subsoil area of federal significance, if such investors have the right to directly or indirectly dispose of 25% or more of the total number of votes attaching to the voting shares (interests) in the charter capital of such entity, is subject to the prior approval of a governmental commission. See “*Regulation of the Oil Industry in the Russian Federation—Strategic Investments—Approval Requirements*” for more information. Still, foreign-state investors, international organisations or entities controlled by them must apply for prior approval of a governmental commission when acquiring more than 5% of the total number of votes attaching to the voting shares (interests) in the charter capital of an entity having strategic importance for ensuring defence and security of the state and carrying out subsoil exploration or production at a subsoil area of federal significance. The above-mentioned restrictions on foreign investment may limit our ability to raise equity financing in foreign capital markets, consummate strategic transactions in the future and, therefore, may have a material adverse effect on our business, financial condition and results of operations and may affect the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

Moreover, the Russian Law “On Special Economic and Enforcement Measures” grants the President of Russia, acting upon recommendation of the Russian Security Council, authority to (i) prohibit dealings with foreign states and/or foreign organisations, as well as citizens and persons without citizenship who continuously reside in the territory of a foreign state and (ii) impose obligations to perform specific activities in furtherance of adopted economic measures. The imposition of any such restrictions, prohibitions, obligations or measures with respect to countries in which we currently operate or may operate in the future could materially adversely affect our business, financial condition, results of operations and prospects.

Russia’s physical infrastructure is not as well developed or maintained as the infrastructure in more developed countries, which could disrupt normal business activity.

Russia’s physical infrastructure is not as well developed or maintained as the infrastructure in more developed countries. Such physical infrastructure includes the road networks, railroad system, power generation and transmission systems, communication systems and building stock. The Russian Government has implemented in the past, and may further implement, infrastructure improvements and reorganisations of the nation’s rail, road and power systems. These reorganisations may result in increased charges and tariffs and may not generate sufficient capital investment to repair, maintain and improve these systems. A prolonged or major disruption in our normal business activity due to a deterioration of Russia’s infrastructure, especially as it relates to transportation, and significant increases in charges and tariffs, could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and may interrupt business operations in Russia, any or all of which could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer’s ability to meet its obligations under the notes and LUKOIL’s ability to meet its obligations under the guarantee.

Corruption and negative publicity could harm our business.

The local and international press have reported high levels of corruption and extortion in Russia, including selective investigations and prosecutions to further the personal or commercial interests of certain favoured companies or individuals. The local and international press have also generated reports with speculation or allegations of criminal conduct or corruption on the part of Russian companies, individuals within Russian companies or government officials. In addition, the Russian press and other non-traditional media are suspected of publishing biased articles and reports in return for payment. The effects of demands of corrupt officials, claims that we have been involved in corruption or related negative publicity could disrupt our ability to conduct our business effectively and could, thus, have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Social instability could materially adversely affect our business, financial condition and results of operations.

Increased unemployment (especially resulting from weak economic conditions), the failure of state and private enterprises to pay full salaries on a regular basis, the failure of salaries and benefits generally to keep pace with increasing cost of living and high levels of crime and corruption have led in the past, and could lead in the future, to labour and social unrest in Russia and/or the other countries in which we operate. Labour and social unrest may have widespread political, social and economic consequences, such as increased support for further political reforms, increased nationalism (with restrictions on foreign involvement) and increased violence.

Any of these consequences could restrict our operations and lead to the loss of revenue, materially adversely affecting our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

If transactions or corporate resolutions that our Group's Russian entities have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities could be imposed on our Group.

Our Group's Russian entities have taken a variety of actions relating to share issuances, corporate reorganisations, share and asset disposals and acquisitions, charter capital increases and decreases, valuation of property, interested party transactions, major transactions, currency control and antimonopoly issues, in respect of which the applicable legal procedures are not always clear and which, therefore, could be subject to legal challenges. If any such challenge was successful, it could result in the invalidation of the relevant transaction or resolution, seizure of the relevant assets and/or the imposition of liabilities on our Group. Moreover, since many provisions of Russian law are open to many different interpretations, our Group's Russian entities may not be able to defend successfully any challenge in respect of such transactions. For example, the provisions of Russian law defining which transactions must be approved as "interrelated major transactions" are subject to differing interpretations and there is no assurance that our former or current minority shareholders or shareholders of our Russian entities or any other interested parties will not challenge such transactions in the future. Although we do not expect any past transaction to be so challenged, the invalidation of any such transactions or imposition of any such liabilities could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Our ownership in our privatised companies may be challenged and, if these challenges are successful, we could lose our ownership interests in these companies or their assets.

Our business includes a number of privatised companies, and our business strategy will likely involve the acquisition of additional privatised companies. Many privatisations are arguably deficient and, therefore, vulnerable to challenge because the relevant privatisation legislation is vague, inconsistent or in conflict with other legislation. In the event that the privatisation of any of our companies is successfully challenged, we could risk losing our ownership interest in that company or its assets, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

In addition, under Russian law, transactions with shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party or major transaction rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions with

shares in our subsidiaries (where such shares were acquired from third parties) may raise questions as to the validity of our title to such shares.

Russia's lack of developed corporate and securities laws and regulations may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Corporate and securities laws, including those relating to corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new to Russia. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other, including the CBR, the Ministry of Finance, the FAS and various professional self-regulatory organisations. The regulations of these various authorities are not always coordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations can change rapidly, which may adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether, or how, regulations, decisions and letters issued by various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures, including delisting of our shares in Russia, despite our best efforts at compliance, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The Russian Government can mandate deliveries of crude oil and refined products, including at less than market prices, which could materially adversely affect our relationships with other customers and, more generally, our business, financial condition and results of operations.

The Russian Government has the authority to direct us to deliver crude oil or refined products to certain government-designated customers, which may take precedence over market sales. In addition, the Russian Government has used, and may continue to use, various administrative and fiscal measures to ensure sufficient supplies of crude oil and refined products are made available to domestic customers. Government-directed deliveries may take several forms. We may be directed to make deliveries to government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in general. Requirements for the delivery of domestic crude oil and refined products, with or without a corresponding limitation or ban of export sales, could be used or extended if the domestic market starts experiencing a shortage of crude oil or refined products. Our deliveries under government-directed programmes were historically made at domestic market prices. Notwithstanding, no assurance can be given that the Russian Government will not require that we deliver our products to government-designated customers at below-market prices in the future. See “*Business—Refining, Marketing and Distribution—Refined Products Sales—Refined Products Sales in Russia*” for more information on government-directed deliveries.

Depending on the level of such required supplies, any government-directed deliveries may force us to curtail our export of crude oil or refined products, which have been generally made at higher prices than domestic sales. In addition, any government-directed deliveries may disrupt our relations with our customers and lead to delays in payments for crude oil and refined products. In addition, any failure to make government-directed deliveries may affect our ability to export our crude oil. For example, the Russian Government has previously threatened to limit the access of Russian oil companies to export pipelines for failing to provide domestic refineries with steady supplies of oil. An increase in the levels of government-directed deliveries, or a revocation of export rights, could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Any reintroduction of export quotas or an export licensing regime could materially adversely affect our business, financial condition and results of operations.

The general system of export quotas and licensing of exports was abolished in 1995. At present, quantitative restrictions on exports may be imposed only if required to comply with Russia's obligations under international treaties or for national security purposes. No such restrictions currently apply to the export of crude oil, natural gas or refined products. However, there can be no assurance that export quotas and/or an export licensing regime will not be introduced in the future. In 2019, we exported 45.2% of the crude oil that we produced in Russia and 43.5% of the refined and gas products that we produced in Russia. Accordingly, any restriction on our ability to export our products from Russia could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Restrictions on production could materially adversely affect our business, financial condition and results of operations.

Any restrictions on oil production introduced by the countries where we produce crude oil could materially adversely affect our business, financial condition and results of operations. For example, in November 2016, the OPEC+ countries reached an agreement to reduce crude oil production and limit it to a certain level. This agreement to limit production lasted until March 2020 with the applicable production limit changing several times over this period. As a result of these restrictions, we temporarily reduced our crude oil production volumes in Russia. On 12 April 2020, the OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million bpd beginning in May 2020 with varying limitations remaining in place until the agreement expires in the end of April 2022. Russia will reduce its crude oil production to 8.5 million bpd, starting from May 2020 with respective increases in production from July 2020 and January 2021. We expect that Russian oil companies, including LUKOIL, will reduce their production on a pro rata basis determined by each company's average daily production in February and March 2020. As a result, we may reduce our crude oil production in Russia by approximately 300 thousand bpd as compared to our average daily production in February and March 2020. We expect that negotiations between the Russian Ministry of Energy and Russian oil companies on the reductions on crude oil production will be finalised by the end of April 2020. If any further significant restrictions or limitation on our production are introduced, they could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Parent company liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation provides that when one legal entity is capable of determining or approving decisions made by another legal entity, the entity capable of determining or approving such decisions is deemed a "parent". The person whose decisions are capable of being so determined or approved is deemed a "subsidiary". Under the Civil Code of the Russian Federation, the parent bears joint and several responsibility for transactions concluded by the subsidiary in carrying out the parent's instructions or upon consent of the parent, excluding cases when the parent company approves a transaction and the approval is envisaged by the charter of the subsidiary and/or the parent company. In addition, a parent is secondarily liable for a subsidiary's debts if a subsidiary becomes insolvent or bankrupt due to the fault of a parent. For example, this liability could arise through ownership of voting securities or by contract. In these instances, under the JSC Law and the Limited Liability Companies Law, other shareholders or participants of the subsidiary may claim in the interest of the subsidiary, compensation by the parent of the loss caused to the subsidiary due to the fault of the parent, provided that the parent exercised its right and/or capability to cause the subsidiary to take action knowing that such action would result in losses to the subsidiary. Accordingly, we could be liable in some cases for the debts of our consolidated subsidiaries. This liability could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Shareholder rights provisions under Russian law may impose significant additional obligations on us.

Russian law provides that shareholders that vote against, or do not participate in the voting on, certain matters have the right to demand LUKOIL to repurchase all or some of their shares at a price not less than the market value, as determined in accordance with Russian law. Decisions that trigger this put right include:

- a corporate reorganisation;
- the approval by shareholders of a "major transaction", which involves property worth more than 50% of the book value of a company's assets determined according to Russian accounting standards;
- the amendment (adoption of a resolution at a general shareholders' meeting that may serve as a basis for an amendment of our charter) or restatement of our charter in a manner that limits shareholder rights; and
- an application for the delisting of shares and/or securities convertible into shares.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of the United States and the United Kingdom, which could have a material adverse effect on the value of the notes in the event of our insolvency.

Russian bankruptcy law differs considerably from comparable law in the United States and the United Kingdom and is subject to varying interpretations. For example, there is little precedent to predict how claims of noteholders against a Russian guarantor would be resolved in a bankruptcy of the guarantor. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and could have a material adverse effect on the value of the notes.

In addition, under Russian bankruptcy law, in case of LUKOIL's bankruptcy, its obligations as guarantor of the notes could be subordinated to, among others, the following obligations:

- certain payment obligations that arise after an application for bankruptcy has been duly accepted by a Russian court;
- personal injury and "moral harm" obligations;
- severance pay and employment-related and copyright royalty obligations; and
- secured obligations.

In the event of LUKOIL's bankruptcy, this legislative framework may materially adversely affect the value of the notes.

One or more of our subsidiaries may be forced into liquidation due to formal non-compliance with certain requirements of Russian law, which could have a material adverse effect on our business, financial condition and results of operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements in connection with its formation or reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as of the end of the financial year following the second or any subsequent financial year of a company's operation can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities (if no decision is taken to decrease the charter capital or liquidate the company). Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian balance sheets. However, their solvency (i.e., their ability to pay debts as they come due) is not otherwise adversely affected by such negative net assets.

Although some of our subsidiaries may have failed from time to time to fully comply with all the applicable legal requirements (including with respect to negative net assets), we believe that neither we nor any of our subsidiaries should be subject to liquidation on such grounds, and, as far as we are aware, none of the possible violations has caused any damage to anyone or has had any other negative consequences. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then we may be forced to reorganise the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Risks Relating to the Offering and the Notes

The United Kingdom's withdrawal from the European Union may adversely affect the market value of the notes and/or limit investors' ability to resell the notes

As the result of a referendum held on 23 June 2016 regarding the United Kingdom's continued membership in the European Union, a majority of voters in the United Kingdom voted in favour of exiting the European Union. To implement the result of the referendum, the United Kingdom Government notified the European Council on 29 March 2017 of its intention to leave the European Union in accordance with the procedure set out in paragraph 2 of Article 50 of the Treaty of the European Union. Thereafter, the United Kingdom and the European Union negotiated an intergovernmental agreement for the withdrawal of the United Kingdom from the European Union ("**Withdrawal Agreement**"), which was concluded and ratified by the United Kingdom and the European Union, and consequentially, the United Kingdom formally left the European Union on 31 January 2020. The Withdrawal Agreement provides for a transition period lasting until 31 December 2020 which, with the consent of the United

Kingdom and the European Union, may be extended once by two years to 31 December 2022 (the “**Transition Period**”). European Union law will continue to apply to the United Kingdom during the Transition Period as if it were a Member State thereof and the United Kingdom will be able to participate in the single market.

In the event the United Kingdom and the European Union fail to reach agreement on the details of their future relationship within the Transition Period, all European Union law will cease to apply to the United Kingdom at the end of the Transition Period.

As the details of the United Kingdom's relationship with the European Union are to be negotiated and agreed during the Transition Period, the potential effect on the legal and regulatory environment applicable to the notes and to investors is unclear and may have adverse and unforeseeable consequences.

The European Securities and Markets Authority (“**ESMA**”) has warned that, in the event of a disorderly exit by the United Kingdom from the European Union, prospectuses approved by the FCA prior to exit date will not be valid, which will prevent the public offer of securities and/or the admission to trading of securities in the remaining 27 European Union States or the European Free Trade Association States. Unless, or until, we prepare a new prospectus and that prospectus is approved in another Member State, the inability to trade in the remaining 27 European Union States or the European Free Trade Association States could adversely affect the market value of the notes and/or limit investors' ability to resell the notes.

The notes may not have an active trading market, which may have an impact on the value of the notes.

The notes have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Although it is expected that the notes will be admitted to trading on the London Stock Exchange on or after the Closing Date, there may be little or no secondary market for the notes. Even if a secondary market for the notes develops, it may not provide significant liquidity and it is expected that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for the notes in any secondary market could be substantial and the value of the notes could be adversely affected. Furthermore, failure to comply with issuer requirements of the London Stock Exchange or meet applicable regulatory or London Stock Exchange obligations in a timely manner could cause the notes to be downgraded to lower listing grades or to be delisted, potentially having an adverse effect on their liquidity and value.

The notes are subject to restrictions on transfer, which may affect the value of the notes.

The Rule 144A Notes are being offered and sold in the United States in reliance on Rule 144A to purchasers who are QIBs. The Regulation S Notes are being offered and sold outside the United States in reliance on Regulation S. Each purchaser of the Rule 144A Notes will be deemed to have represented to the Issuer, *inter alia*, that it is a QIB. Each purchaser of the Regulation S Notes will be deemed to have represented to the Issuer, *inter alia*, that it is not a U.S. person within the meaning of Regulation S and is not acquiring notes for the account or benefit of any U.S. person. As a result of the foregoing, the notes are subject to certain restrictions on transfer, which may adversely affect the liquidity and the value of the notes. See “*Transfer Restrictions*”.

The Issuer can redeem the notes at its option, which may affect the value of the notes.

The Issuer has the option to redeem the notes prior to their scheduled maturity date in certain circumstances as described in Condition 7 of the Terms and Conditions of the Notes. Even if the Issuer does not exercise its option to redeem the notes, its ability to do so may adversely affect the value of the notes.

The protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the notes.

We have agreed in Condition 4 of the Terms and Conditions of the Notes not to, and to procure that no Subsidiary (as defined in the Terms and Conditions of the Notes) will, create or permit to subsist any Security Interest (as defined in the Terms and Conditions of the Notes) other than a Permitted Security Interest (as defined in the Terms and Conditions of the Notes) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) any payment in respect of or relating to any Relevant Indebtedness without procuring that the notes are secured equally and rateably with such Relevant Indebtedness to the satisfaction of the Trustee. The application of this negative pledge and the protection that it affords to holders of the notes, however, is limited. For example, the definition of Relevant Indebtedness is limited to our present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other securities (but, for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or agreements) which either are by their terms payable, or confer a right to payment, in any currency,

and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market. In addition, pursuant to an exemption from the negative pledge, we will be permitted to secure an aggregate amount of Relevant Indebtedness not exceeding 20% of the value of Consolidated Assets (as defined in the Terms and Conditions of the Notes), without any obligation to afford any equal and ratable security to holders of the notes. As a result, we will be permitted to secure a range of other forms of Indebtedness (as defined in the Terms and Conditions of the Notes) and may also create security in respect of a significant amount of Relevant Indebtedness without, at the same time, being obliged to grant equal and ratable security in respect of the notes or the guarantee, as the case may be, which may adversely affect the value of an investment in the notes and/or cause holders of the notes to rank in terms of priority behind such secured creditors.

The Issuer has limited net assets with which to meet its obligations under the notes.

The Issuer is a direct wholly-owned subsidiary of LUKOIL and will lend the net proceeds from the issue of the notes to LUKOIL. The principal activity of the Issuer is to act as a financing company. Accordingly, it has limited net assets (other than amounts due to it from LUKOIL and other Group entities in respect of intercompany loans) to meet its obligations to pay interest and other amounts payable in respect of the notes. While LUKOIL has guaranteed the Issuer's obligations under the notes, LUKOIL is dependent in large part on its subsidiaries' operations to fund payments on its outstanding obligations.

We operate through our subsidiaries, which effectively subordinates the claims under our guarantee of the notes to the claims of creditors of our subsidiaries.

LUKOIL will guarantee the notes, but the notes will not be guaranteed by LUKOIL's subsidiaries. Our operations are, to a significant extent, conducted through our subsidiaries. Accordingly, LUKOIL is and will be dependent on its subsidiaries' operations to service its indebtedness, including its guarantee of the notes. The guarantee are effectively subordinated to the claims of all of the creditors, including trade creditors, of LUKOIL's subsidiaries. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of LUKOIL, creditors of such subsidiary generally will have the right to be paid in full before any distribution will be made to LUKOIL or the holders of the notes.

Noteholders may not be adequately protected against corporate restructurings or highly leveraged transactions.

The terms of the notes do not contain provisions that would afford protection to holders of the notes in the event of a decline in our credit quality resulting from highly leveraged or other similar transactions in which we may engage. We are also not limited in the amount of other indebtedness or other liabilities that we may incur or securities that we may issue. Holders of the notes do not have the right to require us to repurchase or redeem the notes in the event of many types of highly leveraged transactions.

Noteholders may face difficulties enforcing their rights under LUKOIL's guarantee or the notes.

LUKOIL and most of its subsidiaries are incorporated outside of the United States and the United Kingdom, primarily in Russia. It may not be possible for investors to effect service of process within the United States or the United Kingdom on LUKOIL, the Issuer or their respective directors and executive officers or enforce judgments obtained in the United States or the United Kingdom against LUKOIL, the Issuer or their respective directors and executive officers. The enforceability of the guarantee issued in connection with the notes may be subject to numerous legal defences, some of which could be based upon the fact that there may be no recognition and enforcement of foreign court judgments in Russia. See "*Limitation on Enforceability of Civil Liabilities*".

Payments under the guarantee may be subject to Russian withholding tax.

Payments under the guarantee to be made by the Guarantor to the Trustee acting on behalf of the noteholders should be subject to the Russian withholding tax in respect of these payments at the rate of 20% (in the case of applicability of the rate established for Non-Resident Noteholders—Legal Entities (as defined in "*Taxation—The Russian Federation*")) or at a rate of 30% (in the case of applicability of the rate established for Non-Resident Noteholders—Individuals (as defined in "*Taxation—The Russian Federation*")) or such other rate as may be in force at the time of payment unless the specific exemption contemplated by the Russian Tax Code with respect to "issued bonds" is applied or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty (see "*Taxation—The Russian Federation*"). However, there can be no assurance that the double tax treaty relief (or refund of any taxes withheld) will be available for Non-Resident Noteholder-Legal Entities and Non-Resident Noteholders-Individuals or the Russian tax exemption established for the "issued bonds" will be available in practice. See "*Taxation—The Russian Federation*".

Further, there can be no assurance that the Russian withholding tax would not be imposed on the payments made under the guarantee to Non-Resident Noteholders—Legal Entities not residing for tax purposes in countries which have concluded a double tax treaty with Russia. In such case there is a risk that Russian withholding tax would be

imposed on the full amount of the guarantee payment, including the principal amount of the notes. Since the above could only be relevant in the case of payments made in favour of Non-Resident Noteholders–Legal Entities residing for tax purposes in countries which do not have a double tax treaty with Russia, reduction or elimination of the 20% Russian withholding tax on the basis of the double tax treaties under such circumstances should not be possible.

There is also a risk that the exemption from the obligation to act as withholding tax agent would not be available in relation to payments under the guarantee in respect of net proceeds of the notes to the extent that the Guarantor is not able to prove that such proceeds were used to provide funds in the form of debt to the Russian subsidiaries of the Group. In such a case, there is a risk that payments under the guarantee to the Non-Resident Noteholders–Legal Entities would be subject to Russian withholding tax at 20%, which could be reduced or eliminated based on consideration of the position of each individual noteholder with respect to such noteholder’s tax residence, their eligibility to double tax treaty benefits based on the applicable double tax treaty, if any, between the Russian Federation and the country where such noteholder is resident and the provisions of such treaty subject to compliance with treaty clearance formalities assuming that the noteholders can qualify as persons having the actual rights to the respective payments for the Russian tax purposes. However, there is no assurance that the provisions of the relevant double tax treaty can be applied in practice given that the noteholders will not be the immediate recipients of the payments under the guarantee.

Importantly, the Russian Tax Code does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are legal entities to self-assess and pay the tax to the Russian tax authorities in case the tax was not withheld at source. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including Non-resident Noteholders–Legal Entities and/or the Trustee.

Payments under the guarantee to a Non-resident Noteholder–Individual (as defined in section “*Taxation—The Russian Federation*”) made by the Guarantor may be subject to Russian withholding tax. In this case, depending on how these payments would be effected, either the full amount of payment or a part of such payments (covering interest on the notes) would be subject to the 30% tax which may be withheld at the source or paid on a self-assessed basis. This tax may be subject to relief or reduced tax rate under the terms of an applicable double tax treaty.

Given the uncertainties regarding the form and procedures for providing the documentary support, it is unlikely that Non-resident Noteholders–Individuals in practice would be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. See “*Taxation—The Russian Federation*”.

If any payment required under the guarantee becomes subject to Russian withholding tax or deduction for any taxes, duties, assessments or governmental charges of any nature (as a result of which the Guarantor would have to reduce payments made under the guarantee by the withheld amount), we will be obliged (subject to certain conditions) to increase the amount payable under the guarantee so as to result in the receipt by the Trustee acting on behalf of the noteholders of such amounts as would have been received by it if no such withholding or deduction took place (except in circumstances specified in Condition 7(b) of the Terms and Conditions of the Notes (*Redemption for tax reasons*)). As a result, we could incur expenses well in excess of the amount due to the noteholders. We cannot be certain that we would have sufficient funds to make any payment required under the guarantee or to pay the additional amounts associated with withholding tax.

Further, there is a risk that our obligation to pay the additional amounts associated with withholding tax may be unenforceable under Russian law.

Although recently the Russian tax legislation has been amended to explicitly permit settlement of a taxpayer’s obligations by other parties, there is still a risk that gross-up for the withholding tax may take place and that the payments made by the Guarantor under the guarantee will be reduced by the amount of the Russian income tax withheld by the Guarantor at the rate of 20% (in the case of applicability of the rate established for Non-Resident Noteholders–Legal Entities) or at a rate of 30% (in the case of applicability of the rate established for Non-Resident Noteholders–Individuals), or such other rate as may be in force at the time of payment. If the Guarantor were to fail to make tax gross-up payments in accordance with the terms of the guarantee and the related provisions under the guarantee were deemed to be unenforceable, the net amount of the payments made by the Guarantor to the Trustee acting on behalf of the noteholders could be insufficient to make payment in full under the notes.

Withholding of tax on disposals of the notes in Russia may reduce their value.

Where income resulting from sale, redemption or disposal of the notes is deemed to be received from a source within Russia by a Non-Resident Noteholder—Individual, a Russian personal income tax at a rate of 30% (or such other rate as may be in force at the time of payment) should be charged on the gross amount of proceeds from disposal of the notes less any available duly documented cost deductions (including the original purchase price of the notes and other documented expenses related to the acquisition, holding and sale or other disposal of the notes), provided that the documentation supporting cost deductions is made available in a timely manner to the tax agent obliged to calculate and withhold Russian personal income tax.

For personal income tax purposes, deductible costs and proceeds from disposal of the notes are converted into rubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in ruble terms due to devaluation of the ruble (whereas in foreign currency terms there might be no gain or even a capital loss).

Although Russian personal tax rate on proceeds from disposal of the notes may be reduced or eliminated under an applicable double tax treaty entered into between Russia and the country of tax residency of a particular noteholder subject to timely compliance by that noteholder with the treaty clearance formalities, in practice, individuals may not always be able to obtain advance treaty relief in relation to proceeds or interest income received from a source within Russia, whilst obtaining a refund of taxes withheld that were excessively withheld in relation to such income can be difficult or impossible in some cases. Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker, or another person (including an economically autonomous subdivision of a foreign company in Russia or an individual entrepreneur located in Russia) acting in a similar capacity to withhold the tax from payment to an individual associated with disposal of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

Generally, there should be no Russian tax on gains from sale or other disposition of the notes imposed on Non-Resident Noteholder—Legal Entity. There is however some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the notes (i.e., debt obligations) where proceeds from sale or other disposition of the notes are received from a source within Russia by a Non-Resident Noteholder—Legal Entity. The uncertainty is driven by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the Eurobonds paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, consequently, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the notes from a Non-Resident Noteholder—Legal Entity or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20% (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

In addition, while some noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the notes. See “*Taxation—The Russian Federation*”.

U.S. Foreign Account Tax Compliance Act Withholding.

The United States has enacted rules, commonly referred to as “FATCA”, that generally impose a new reporting and withholding regime with respect to certain U.S. source payments (including dividends and interest), gross proceeds from the disposition of property that can produce U.S. source interest and dividends and certain payments made by, and financial accounts held with, entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with The Netherlands (the IGA). Under the IGA, as currently drafted, the Issuer does not expect non-U.S. source payments made on or with respect to the notes to be subject to withholding under FATCA. However, some aspects of how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the notes in the future. An investor should be aware that if any payments in relation to a note were subject to withholding or deduction under FATCA, neither the Issuer nor the Guarantor would have an obligation to pay any additional amounts in relation to such withholding

or deduction in accordance with Condition 9 (Taxation) of the notes. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA.

CAPITALISATION

The following table sets forth our consolidated capitalisation and short-term debt as of 31 December 2019 based on data extracted from our audited consolidated financial statements as of 31 December 2019. The net proceeds of the offering will be used as described under “*Use of Proceeds*”. There have been no material changes in our capitalisation since 31 December 2019, except as described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*”. For further information regarding our financial condition, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our consolidated financial statements and notes thereto included elsewhere in this prospectus.

	As of 31 December 2019 <i>(millions of rubles)</i>
Short-term debt	
Short-term borrowings from third parties.....	13,940
Short-term borrowings from related parties	2,222
Current portion of long-term debt	114,138
Total short-term debt	130,300
Long-term debt	
Long-term loans and borrowings from third parties	117,864
6.125% non-convertible U.S. dollar bonds, maturing 2020 ⁽¹⁾	61,866
6.656% non-convertible U.S. dollar bonds, maturing 2022	30,905
4.563% non-convertible U.S. dollar bonds, maturing 2023	92,769
4.750% non-convertible U.S. dollar bonds, maturing 2026	61,786
Lease obligations	171,880
Total long-term debt	537,070
Current portion of long-term debt	(114,138)
Total non-current portion of long-term debt	422,932
Total debt ⁽²⁾	553,232
Equity	
Share capital	968
Treasury shares	(308,160)
Additional paid-in capital	39,277
Other reserves	30,141
Retained earnings.....	4,203,138
Total equity attributable to PJSC “LUKOIL” shareholders	3,965,364
Total capitalisation ⁽³⁾	4,518,596

(1) Maturity date 9 November 2020.

(2) Comprising short-term debt and non-current portion of long-term debt.

(3) Comprising total debt and total equity attributable to LUKOIL shareholders.

Of the total debt of the Group of RUB 553,232 million, as of 31 December 2019, RUB 378,591 million was guaranteed by LUKOIL, RUB 33 million was secured (with no LUKOIL guarantee) and RUB 174,608 million was neither secured nor guaranteed.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial information set out below as of and for the years ended 31 December 2019, 2018 and 2017 has been derived from our audited annual consolidated financial statements and notes thereto included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

The following selected financial information should be read together with “Presentation of Financial and Other Information—Presentation of Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto and the unaudited supplementary information on oil and gas exploration and production activities therein included elsewhere in this prospectus. Investors should read this prospectus as a whole and not rely solely on summary or selected information.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31 December		
	2019	2018	2017
	<i>(millions of rubles, except per share amounts)</i>		
Consolidated Statement of Profit or Loss and Other Comprehensive Income:			
Revenues			
Sales (including excise and export tariffs)	7,841,246	8,035,889	5,936,705
Costs and other deductions			
Operating expenses	(457,710)	(464,467)	(456,765)
Cost of purchased crude oil, gas and products	(4,308,073)	(4,534,244)	(3,129,864)
Transportation expenses	(278,798)	(270,153)	(272,792)
Selling, general and administrative expenses	(197,172)	(192,433)	(165,331)
Depreciation, depletion and amortisation	(415,094)	(343,085)	(325,054)
Taxes other than income taxes	(928,190)	(899,383)	(606,510)
Excise and export tariffs	(425,763)	(556,827)	(461,525)
Exploration expenses	(9,348)	(3,582)	(12,348)
Profit from operating activities	821,098	771,715	506,516
Finance income	25,134	19,530	15,151
Finance costs	(44,356)	(38,298)	(27,331)
Equity share in income of affiliates	18,246	25,243	16,864
Foreign exchange gain (loss)	923	33,763	(19,948)
Other (expenses) income	(27,691)	(38,934)	32,932
Profit before income taxes	793,354	773,019	524,184
Current income taxes	(144,615)	(137,062)	(99,976)
Deferred income taxes	(6,518)	(14,855)	(3,786)
Total income tax expense	(151,133)	(151,917)	(103,762)
Profit for the year	642,221	621,102	420,422
Profit for the year attributable to non-controlling interests	(2,043)	(1,928)	(1,617)
Profit for the year attributable to PJSC “LUKOIL” shareholders	640,178	619,174	418,805
Other comprehensive income (loss), net of income taxes:			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations	(164,117)	172,037	2,626
Change in fair value of equity investments at fair value through other comprehensive income	(348)	(2,393)	(2,180)
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset of pension plan	(1,976)	(196)	(2,325)
Other comprehensive (loss) income	(166,441)	169,448	(1,879)
Total comprehensive income for the year	475,780	790,550	418,543
Total comprehensive income for the year attributable to non-controlling interests	(2,015)	(1,912)	(1,650)
Total comprehensive income for the year attributable to PJSC “LUKOIL” shareholders	473,765	788,638	416,893
Earnings per share of common stock attributable to PJSC “LUKOIL” shareholders (in rubles):			
Basic	963.28	874.47	589.14
Diluted	934.73	865.19	589.14

Consolidated Statement of Financial Position

	As of 31 December		
	2019	2018	2017
	<i>(millions of rubles)</i>		
Assets			
Current assets			
Cash and cash equivalents.....	516,032	492,650	330,390
Accounts receivable, net.....	437,052	429,945	418,272
Other current financial assets.....	49,706	26,200	19,561
Inventories.....	413,910	381,737	398,186
Prepaid taxes.....	95,075	95,611	87,338
Other current assets.....	42,412	52,336	54,367
Total current assets.....	1,554,187	1,478,479	1,308,114
Property, plant and equipment.....	4,026,007	3,829,164	3,575,165
Investments in associates and joint ventures.....	220,004	228,053	164,286
Other non-current financial assets.....	38,231	82,568	79,717
Deferred income tax assets.....	28,673	31,041	25,128
Goodwill and other intangible assets.....	43,108	41,765	41,304
Other non-current assets.....	36,840	41,312	32,501
Total non-current assets.....	4,392,863	4,253,903	3,918,101
Total assets.....	5,947,050	5,732,382	5,226,215
Liabilities and Equity			
Current liabilities			
Accounts payable.....	607,734	547,128	559,977
Short-term borrowings and current portion of long-term debt.....	130,300	99,625	128,713
Taxes payable.....	142,471	123,974	118,484
Provisions.....	37,232	38,266	58,253
Other current liabilities.....	168,952	105,567	93,420
Obligation to repurchase common shares.....	120,988	-	-
Total current liabilities.....	1,207,677	914,560	958,847
Long-term debt.....	422,932	435,422	487,647
Deferred income tax liabilities.....	264,159	258,836	237,980
Provisions.....	77,045	47,923	47,962
Other non-current liabilities.....	1,788	2,115	3,380
Total non-current liabilities.....	765,924	744,296	776,969
Total liabilities.....	1,973,601	1,658,856	1,735,816
Equity			
Share capital.....	968	1,015	1,151
Treasure shares (including obligation to repurchase common shares).....	(308,160)	(134,810)	(251,089)
Additional paid-in capital.....	39,277	39,173	129,641
Other reserves.....	30,141	196,554	27,090
Retained earnings.....	4,203,138	3,963,628	3,576,158
Total equity attributable to PJSC "LUKOIL" shareholders.....	3,965,364	4,065,560	3,482,951
Non-controlling interests.....	8,085	7,966	7,448
Total equity.....	3,973,449	4,073,526	3,490,399
Total liabilities and equity.....	5,947,050	5,732,382	5,226,215

Consolidated Statement of Cash Flows

	Year ended 31 December		
	2019	2018	2017
	<i>(millions of rubles)</i>		
Cash flows from operating activities			
Profit for the year attributable to PJSC "LUKOIL" shareholders	640,178	619,174	418,805
Adjustments for non-cash items:			
Depreciation, depletion and amortisation.....	415,094	343,085	325,054
Equity share in income of affiliates, net of dividends received.....	(11,387)	(17,956)	(7,401)
Dry hole write-offs.....	7,694	1,667	9,445
Loss (gain) on disposals and impairments of assets.....	16,975	26,061	(39,351)
Income tax expense.....	151,133	151,917	103,762
Non-cash foreign exchange (gain) loss.....	(1,120)	(33,041)	20,917
Finance income.....	(25,134)	(19,530)	(15,151)
Finance costs.....	44,356	38,298	27,331
Allowance for expected credit losses.....	9,340	(949)	6,139
Equity-settled-share-based compensation plan.....	31,366	31,366	-
All other items – net.....	1,823	6,076	4,020
Changes in operating assets and liabilities:			

Trade accounts receivable	(48,023)	23,877	(84,055)
Inventories	(69,171)	71,565	(9,350)
Accounts payable	88,977	(92,508)	27,720
Other taxes	24,053	(8,460)	21,538
Other current assets and liabilities	(2,617)	(28,066)	19,164
Income tax paid	(148,314)	(133,064)	(88,323)
Dividends received	6,636	7,527	7,907
Interests received	19,985	19,612	10,319
Net cash provided by operating activities	1,151,844	1,006,651	758,490
Cash flows from investing activities			
Acquisition of licences	(8,925)	(153)	(612)
Capital expenditures	(449,975)	(451,526)	(511,496)
Proceeds from sale of property, plant and equipment	1,759	4,765	1,649
Purchases of financial assets	(7,198)	(7,535)	(5,926)
Proceeds from sale of financial assets	17,774	36,309	12,309
Sale of subsidiaries, net of cash disposed	9,261	-	80,939
Sale of equity method affiliates	259	-	957
Acquisitions of interests in the projects and subsidiaries, net of cash acquired	(71,693)	-	(7,391)
Acquisitions of equity method affiliates	(1,388)	(2,252)	(3,715)
Net cash used in investing activities	(510,126)	(420,392)	(433,286)
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings	264	19,502	9,526
Principal repayments of short-term borrowings	(6,186)	(10,909)	(7,575)
Proceeds from issuance of long-term debt	-	39,786	68,049
Principal repayments of long-term debt	(106,625)	(256,771)	(127,606)
Interests paid	(41,589)	(39,921)	(38,872)
Dividends paid on LUKOIL common shares	(180,747)	(158,370)	(138,810)
Dividends paid to non-controlling interest shareholders	(4,040)	(1,995)	(2,689)
Financing received from non-controlling interest shareholders	297	118	31
Purchase of LUKOIL's stock	(243,691)	(59,993)	(9,474)
Sale of non-controlling interests	-	4	30
Purchases of non-controlling interest	(27)	-	(5)
Net cash used in financing activities	(582,344)	(468,549)	(247,395)
Effect of exchange rate changes on cash and cash equivalents	(35,992)	44,550	(8,786)
Net increase in cash and cash equivalents	23,382	162,260	69,023
Cash and cash equivalents at beginning of year	492,650	330,390	261,367
Cash and cash equivalents at end of year	516,032	492,650	330,390

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

The following discussion and analysis should be read in conjunction with our IFRS audited annual consolidated financial statements as of and for the years ended 31 December 2019, 2018 and 2017 and the notes thereto, and the unaudited supplementary information on oil and gas exploration and production activities therein included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in the section entitled "Risk Factors" and elsewhere in this prospectus.

Overview

The primary activities of our Group are hydrocarbon exploration, production, refining, marketing and distribution.

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). As of 31 December 2019, as audited by Miller and Lents, our proved hydrocarbon reserves were 15,769 mmboe, including 12,015 mmbls (1,639 million tonnes) of crude oil and 22,527 bcf (3,754 mmboe) of gas. Most of our hydrocarbon reserves are conventional.

We undertake exploration for and production of crude oil and gas in Russia and internationally. In Russia, our core producing areas are the West Siberia, Timan-Pechora, Ural and Volga regions. Our international upstream segment includes stakes in PSAs and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in 2019 amounted to 2.4 mmboe, with liquid hydrocarbons representing approximately 76% of our overall production volumes.

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

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

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

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

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

Key Financial and Operational Results

The following tables forth certain key financial and operational results for the periods indicated.

	2019	Year ended 31 December		2017
		% Change	2018	
		<i>(millions of rubles, except %)</i>		
Sales.....	7,841,246	(2.4)	8,035,889	35.4
Adjusted EBITDA ⁽¹⁾	1,236,192	10.9	1,114,800	34.1
Profit for the year attributable to PJSC "LUKOIL" shareholders.....	640,178	3.4	619,174	47.8
				418,805

	Year ended 31 December				2017
	2019	% Change	2018	% Change	
	<i>(millions of rubles, except %)</i>				
Capital expenditures.....	449,975	(0.3)	451,526	(11.7)	511,496
Net cash provided by operating activities.....	1,151,844	14.4	1,006,651	32.7	758,490
Free cash flow ⁽²⁾	701,869	26.4	555,125	124.8	246,994
Free cash flow before changes in working capital ⁽²⁾	708,650	20.4	588,717	116.5	271,977
	<i>(mboe per day, except %)</i>				
Production of hydrocarbons, including our share in equity affiliates ⁽³⁾	2,380	1.4	2,347	3.4	2,269
Crude oil and natural gas liquids.....	1,815	0.5	1,806	0.1	1,804
Gas ⁽³⁾	565	4.4	541	16.3	465
Refinery throughput at our Group refineries	1,381	2.1	1,352	0.1	1,350

- (1) We define adjusted EBITDA as profit for the year attributable to PJSC “LUKOIL” shareholders before profit for the year attributable to non-controlling interests, income tax expense, finance income, finance costs, foreign exchange (gain) loss, equity share in income of affiliates, other expenses (income) and depreciation, depletion and amortisation. See “*Presentation of Financial and Other Information—Non-IFRS Financial Measures (Unaudited)*” for more detail on our use of adjusted EBITDA as a non-IFRS financial measure.
- (2) We define free cash flow as cash flow from operating activities less capital expenditures. We define free cash flow before changes in working capital as cash flow from operating activities less capital expenditures less changes in operating assets and liabilities, as set out in our consolidated statement of cash flows. See “*Presentation of Financial and Other Information—Non-IFRS Financial Measures (Unaudited)*” for more detail on our use of free cash flow and free cash flow before changes in working capital as non-IFRS financial measures.
- (3) Gas production excluding flaring, reinjection and usage at the Group’s gas processing plants.

In 2019, profit for the year attributable to LUKOIL shareholders amounted to RUB 640 billion, an increase of 3.4% compared to 2018. Additionally, our adjusted EBITDA amounted to RUB 1,236 billion, an increase of 10.9% compared to 2018.

Our profit for the year attributable to LUKOIL shareholders and adjusted EBITDA improved due to growth in gas production volumes outside Russia, an increase in the share of high-margin volumes in our domestic crude oil production structure, an implementation of a new tax regime on additional income from the hydrocarbon production at certain licence areas, higher throughput volumes and better product slate at our refineries. Our results also improved due to increased profitability in our retail and trading businesses and the effect of the ruble devaluation. Our results were negatively affected by a decrease in international hydrocarbon prices, a decrease in benchmark refining margins and accounting specifics of our trading operations due to different timing of recognition of gains and losses for hedging transactions.

From 1 January 2019, we adopted IFRS 16 “Leases”, which had a positive impact on our profit for the year attributable to LUKOIL shareholders in 2019 in the amount of RUB 5.1 billion, on our adjusted EBITDA in the amount of RUB 37.0 billion, on our cash provided by operating activities in the amount of RUB 37.2 billion and on our free cash flow in the amount of RUB 46.7 billion. Additionally, an outflow of RUB 46.7 billion in cash used in financing activities was related to IFRS 16 “Leases”.

Our depreciation, depletion and amortization expenses in 2019 increased compared to 2018 mainly as a result of the adoption of IFRS 16 “Leases”, as well as due to an increase in gas production outside of Russia.

In 2019 our capital expenditures did not change significantly when compared to 2018.

Our net cash provided by operating activities in 2019 was RUB 1,152 billion, an increase of 14.4% compared to 2018, and our free cash flow was RUB 702 billion, an increase of 26.4% compared to 2018. The increase in net cash provided by operating activities and free cash flow was mainly due to an increase in profitability of our core operations.

Our average daily hydrocarbon production in 2019 increased by 1.4% compared to 2018. The increase was driven primarily by an increase of hydrocarbon production volumes outside Russia.

Compared to 2018, throughput at our own refineries increased by 2.1%, which was mainly due to a higher utilisation rate at our Nizhny Novgorod refinery, as well as maintenance at the refinery in Bulgaria in the first quarter of 2018.

Changes in Accounting Policies

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

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

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

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

Adoption of IFRS 16 in 2019 had the following effects on our financial statements. Our operating, transportation and selling, general and administrative expenses decreased by RUB 5.7 billion, RUB 22.4 billion and RUB 8.8 billion, respectively. Our depreciation expenses, finance costs and income tax expenses increased by RUB 33.0 billion, RUB 6.7 billion and RUB 0.5 billion, respectively. We also recognised a foreign exchange gain of RUB 7.9 billion related to certain lease liabilities in foreign currencies. As a result, our profit for the year attributable to LUKOIL shareholders increased by RUB 5.1 billion, our adjusted EBITDA increased by RUB 37.0 billion, our cash provided by operating activities increased by RUB 37.2 billion and our free cash flow increased by RUB 46.7 billion. Additionally, an outflow of RUB 46.7 billion in cash used in financing activities was related to IFRS 16. At the same time, our debt at 31 December 2019 increased by RUB 136.9 billion.

Changes in the Group Structure

In October 2019, we acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National Oil Company (“**ADNOC**”) for RUB 13.8 billion (\$214 million).

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

In February 2017, we completed the sale of our wholly owned subsidiary, LUKOIL Chemical B.V., which owned the “Karpatneftechim” petrochemical plant located in the Ivano-Frankovsk area of Ukraine.

In December 2016, we entered into a contract with a company of the “Otkrytie Holding” group to sell our 100% interest in JSC “Arkhangelskgeoldobycha”, a company developing the diamond field named after V.P. Grib located in the Arkhangelsk region of Russia. The transaction, in the amount of the ruble equivalent of \$1.45 billion, was completed on 24 May 2017 after all necessary governmental approvals were received. As a result, in 2017, we recognised a pre-tax gain on the transaction in the amount of RUB 48 billion that is included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income (with a post-tax gain on the transaction being RUB 38 billion) in our consolidated financial statements included elsewhere in this prospectus.

Main Macroeconomic Factors Affecting Our Results of Operations

Global trends in exploration and production activities and in oil prices

In December 2019, the emergence of a new strain of the coronavirus (COVID-19) was reported in China that has subsequently spread across China and several other countries and regions, including Russia, the United States and Europe. As a result of the outbreak, travel restrictions, quarantines and similar measures taken by governments

and companies have had a significant impact on global commerce. Beginning in early March 2020, the global oil markets have experienced a precipitous decline in oil prices in response to concerns regarding the potential impacts of the coronavirus (COVID-19) outbreak on worldwide oil demand and the anticipated increases in oil production from the OPEC+ countries. Though in April 2020 the OPEC+ countries entered into a new agreement to reduce oil production, the full impact of this agreement on crude oil prices is still uncertain. These lower prices for crude oil have already had a negative impact on our upstream margins in March 2020, and the rapid decline in prices for refined products resulted in substantial negative inventory effect at our refineries in March 2020. Furthermore, declining demand for refined products as a result of the coronavirus (COVID-19) may have a negative impact on our downstream performance in the future. We continue to monitor the ongoing situation and may adjust our current policies and practices as more information and guidance become available. See *“Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations”* for more information on hydrocarbon prices and their potential impact on us.

OPEC+ production limitations

The OPEC+ countries, including Russia, agreed to reduce collective oil output by 1.8 million bpd from 1 January 2017, in order to stabilise the global crude oil market. Since 2017, we limited production in our traditional regions (West Siberia, Timan-Pechora, Ural) by closing least-productive fields, fields with high water cut and high lifting costs. We also decreased a number of workover operations. We increased our production in July 2018, when the parameters of the agreement were amended. In December 2018, the OPEC+ countries agreed to decrease crude oil production relative to October 2018 levels until June 2019, which was subsequently prolonged until March 2020. Due to this agreement, we limited our liquids production by 33.4 thousand bpd (as compared to our production volumes in October 2018) in our traditional regions (West Siberia, Timan-Pechora and Ural) at the least-productive fields and fields with high water-cuts. In March 2020, the OPEC+ countries were unable to agree on further limitations of crude oil production, and starting from 1 April 2020, the OPEC+ agreement ceased to exist. On 12 April 2020, the OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million bpd beginning in May 2020; these initial limitations will last for two months with the collective output limitations of OPEC+ then decreasing to 7.7 million bpd from July 2020 and then further decreasing to 5.8 million bpd from January 2021 until the agreement expires in the end of April 2022. According to the OPEC+ agreement, Russia will reduce its crude oil production to 8.5 million bpd, starting from May 2020 with respective increases in production from July 2020 and January 2021. We expect that Russian oil companies, including LUKOIL, will reduce their production on a pro rata basis determined by each company’s average daily production in February and March 2020. As a result, we may reduce our crude oil production in Russia by approximately 300 thousand bpd as compared to our average daily production in February and March 2020. We expect that negotiations between the Russian Ministry of Energy and Russian oil companies on the reductions on crude oil production will be finalised by the end of April 2020. See *“Risk Factors—Risks Relating to the Russian Federation—Restrictions on production could materially adversely affect our business, financial condition and results of operations”* for more information on production restrictions and their potential impact on us.

Sanctions against Russian entities

On 12 September 2014, the United States and European Union announced sanctions against Russian entities. Among other measures, these U.S. sanctions include action by OFAC to include LUKOIL and other Russian energy companies on the SSI List pursuant to Directive 4 of Executive Order 13662 (**“Directive 4”**). The Directive 4 designation prohibits the provision, exportation, or reexportation, directly or indirectly, by U.S. persons (as described in *“Risk Factors”*), of goods, services (except for financial services) or technology in support of specified types of oil projects in Russia that involve any person determined to be subject to Directive 4. Following the enactment of CAATSA, on 31 October 2017, the U.S. expanded the scope of Directive 4 to impose restrictions on certain newly-initiated deepwater, Arctic offshore, and shale projects worldwide. Effective 17 September 2014, LUKOIL and other Russian energy companies were added to the Entity List maintained by the BIS, imposing a licence requirement for the export of certain commercial goods and other items to listed entities for use in specified types of oil or gas projects in Russia. In addition, the EU imposed export control restrictions, which are not specific to LUKOIL (or any other entity), on the provision of certain services relating to specified types of oil projects in Russia. The U.S. and the EU have subsequently proposed and/or enacted additional sanctions measures and may do so again in the future. See *“Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—The naming of LUKOIL on certain sanctions and export control lists by the United States, and the imposition of export controls in relation to the Russian energy sector by the European Union and other countries, may adversely affect our business, financial condition, results of operations and prospects”* and *“—Additional sanctions imposed by the United States and the European Union, and other related actions and developments may adversely affect our*

business, financial condition, results of operations and prospects” for a description of the sanctions measures and their potential impact on us.

International Crude Oil and Refined Products Prices

The prices at which we sell crude oil and refined products are the primary driver of our revenues.

The dynamics of our realised prices on international markets generally match the dynamics of commonly used spot benchmarks such as Brent crude oil price, however our average realised sales prices are usually different from such benchmarks due to different delivery terms, quality mix, as well as the specifics of regional markets in the case of petroleum product sales. See “Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations” and “—A change in the blend of the oil transported through the Transneft pipeline network could affect the price we receive for our oil” for more information regarding oil prices.

In 2019, the price for Brent crude oil fluctuated between \$53 and \$75 per barrel (with a minimum of \$53.2 in early January and a maximum of \$74.7 in mid-May) and averaged 9.4% lower than in 2018.

In 2018, the price for Brent crude oil fluctuated between \$50 and \$86 per barrel (with a minimum of \$50.2 in the end of December and a maximum of \$86.2 in early October) and averaged 30.7% higher than in 2017.

In 2017, the price for Brent crude oil fluctuated between \$44 and \$67 per barrel (with a minimum of \$44.3 in late June and a maximum of \$66.5 in late December) and averaged 24.1% higher than in 2016.

The following table shows the average international crude oil and refined product prices for the periods and in the currencies indicated.

	Year ended 31 December				2017
	2019	% Change	2018	% Change	
	<i>(U.S. dollars per barrel, except %)</i>				
Brent crude	64.28	(9.4)	70.94	30.7	54.28
Urals crude (CIF Mediterranean)	63.84	(8.7)	69.89	31.0	53.37
Urals crude (CIF Rotterdam)	63.02	(9.4)	69.57	31.5	52.92
	<i>(U.S. dollars per tonne, except %)</i>				
Diesel fuel 10 ppm (FOB Rotterdam)	591.28	(7.4)	638.76	29.3	493.92
High-octane gasoline (FOB Rotterdam)	614.96	(8.5)	671.85	20.5	557.66
Naphtha (FOB Rotterdam)	501.31	(16.0)	597.08	24.2	480.75
Jet fuel (FOB Rotterdam)	630.10	(7.8)	683.19	29.8	526.17
Vacuum gas oil (FOB Rotterdam)	450.36	(7.7)	487.88	32.2	369.15
Fuel oil 3.5% (FOB Rotterdam)	329.97	(16.2)	393.98	31.1	300.49

Source: Platts.

	<i>(rubles per barrel, except %)</i>				
	2019	% Change	2018	% Change	
Brent crude ⁽¹⁾	4,161	(6.5)	4,449	40.5	3,167
Urals crude (CIF Mediterranean) ⁽¹⁾	4,133	(5.7)	4,383	40.8	3,114
Urals crude (CIF Rotterdam) ⁽¹⁾	4,080	(6.5)	4,363	41.3	3,088
	<i>(rubles per tonne, except %)</i>				
Diesel fuel 10 ppm (FOB Rotterdam) ⁽¹⁾	38,277	(4.4)	40,055	39.0	28,822
High-octane gasoline (FOB Rotterdam) ⁽¹⁾	39,810	(5.5)	42,130	29.5	32,541
Naphtha (FOB Rotterdam) ⁽¹⁾	32,453	(13.3)	37,441	33.5	28,053
Jet fuel (FOB Rotterdam) ⁽¹⁾	40,790	(4.8)	42,842	39.5	30,703
Vacuum gas oil (FOB Rotterdam) ⁽¹⁾	29,154	(4.7)	30,594	42.0	21,541
Fuel oil 3.5% (FOB Rotterdam) ⁽¹⁾	21,361	(13.5)	24,706	40.9	17,534

(1) Translated into rubles using average exchange rates for the period.

Domestic Crude Oil and Refined Products Prices

Most of the crude oil in Russia is produced and then refined or exported by vertically integrated oil companies. As a result, there is no liquid spot market for crude oil in Russia and no publicly available spot price benchmark. Domestic crude oil sales prices may deviate significantly from export netback prices (the prices we achieved for exports, minus export duties and transportation costs) and they also vary between different regions of Russia driven by crude oil supply and demand in regional markets.

Domestic prices for refined products correlate to some extent with export netback prices for crude oil sales, but they are also materially affected by refined products supply and demand in regional markets.

The following table shows the average domestic wholesale prices for refined products for the periods indicated.

	<i>Year ended 31 December</i>				<i>2017</i>
	<i>2019</i>	<i>% Change</i>	<i>2018</i>	<i>% Change</i>	
	<i>(rubles per tonne, except %)</i>				
Diesel fuel.....	40,724	(2.1)	41,582	24.9	33,288
High-octane gasoline (Regular)	38,243	(4.8)	40,185	11.0	36,191
High-octane gasoline (Premium)	40,487	(3.6)	42,005	13.5	37,011
Fuel oil.....	14,514	(18.2)	17,747	68.9	10,507

Source: InfoTEK (excluding VAT).

Changes in Ruble Exchange Rate and Inflation

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

Whether the ruble appreciates or depreciates in real terms is a function of the relationship between movements in the nominal exchange rate and inflation. The following table provides data on inflation in Russia and changes in the ruble-U.S. dollar and the ruble-euro exchange rates for the periods indicated.

	<i>Year ended 31 December</i>		
	<i>2019</i>	<i>2018</i>	<i>2017</i>
Ruble inflation (CPI), %	3.0	4.2	2.5
Ruble to U.S. dollar exchange rate			
Average for the period.....	64.7	62.7	58.4
At the beginning of the period.....	69.5	57.6	60.7
At the end of the period.....	61.9	69.5	57.6
Ruble to euro exchange rate			
Average for the period.....	72.5	74.0	65.9
At the beginning of the period.....	79.5	68.9	63.8
At the end of the period.....	69.3	79.5	68.9

Source: CBR, Rosstat.

See “—*Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk*” for more information about foreign currency risk.

Taxation

Key upstream tax rates. The following table sets forth average enacted rates applicable to our upstream operations in Russia for the periods indicated.

	<i>2019</i>	<i>Year ended 31 December</i>		<i>2017</i>	
		<i>% Change</i>	<i>2018</i>		<i>% Change</i>
	<i>(U.S. dollars per tonne, except %)</i>				
Mineral extraction tax ⁽¹⁾	201.40	1.3	198.83	42.6	139.39
Export duty on crude oil.....	93.77	(27.1)	128.52	48.3	86.71

(1) Translated from rubles using average exchange rates for the period.

	<i>2019</i>	<i>Year ended 31 December</i>		<i>2017</i>	
		<i>% Change</i>	<i>2018</i>		<i>% Change</i>
	<i>(rubles per tonne, except %)</i>				
Mineral extraction tax	13,038	4.6	12,468	53.3	8,134
Export duty on crude oil ⁽¹⁾	6,070	(24.7)	8,059	59.3	5,060

(1) Translated to rubles using average exchange rates for the period.

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

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

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

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

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

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

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

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

	2017	2018	1 Jan. to 30 Sep. 2019	1 Oct. to 31 Dec. 2019	2020	2021	2022	2023	2024 and further
Export duty rate reduction factor...	-	-	0.167	0.167	0.333	0.500	0.667	0.833	1
					<i>(rubles)</i>				
Fixed Factor	306	357	428	428	428	428	428	428	428
Damper Factor for gasoline.....	-	-	125	200	105	105	105	105	105
Damper Factor for diesel fuel.....	-	-	110	185	92	92	92	92	92

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

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

- A special reducing coefficient is applied to the standard tax rate depending on location, depletion, type of reserves, size and complexity of a particular field. This type of incentive with different coefficients is applied to our highly depleted fields (more than 80% depletion), our Yu. Korchagin field located in the Caspian offshore, the Permian layers of our Usinskoye field in Timan-Pechora producing high-viscous crude oil, our Pyakyakhinskoye field located in the Yamal-Nenets Autonomous region of West Siberia (starting from 2019, the field is subject to the tax on additional income from hydrocarbon production), a number of fields in the Nenets Autonomous region, as well as to our new small-sized fields (recoverable reserves less than 5 million tonnes) and fields and deposits with low permeability like V.N. Vinogradov and Imilorskoye fields and Tyumen deposits;
- A fixed tax rate of 15% of the Urals price is applied to our V. Filanovsky offshore field and other greenfields, located in the Caspian offshore;
- A fixed tax rate of 30% of the Urals price is applied to our offshore greenfields, located in the Baltic Sea; and
- A reduced tax rate is applied to our Yaregskoye field producing extra-viscous crude oil, as well as to certain unconventional deposits.

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

The table below illustrates the impact of tax incentives on the extraction and export of crude oil for different fields and deposits in our portfolio at \$50 per barrel Urals price under the 2019 tax formulas.

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

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

TAI is implemented for four groups of licence areas. In Group 1, LUKOIL has 19 licence areas with greenfields in new regions, including Pyakyakhinskoye field, and a number of fields in Timan-Pechora with total crude oil and gas condensate production of 2,011 thousand tonnes in 2019. In Group 3, LUKOIL has eight licence areas with brownfields in West Siberia with total crude oil and gas condensate production of 2,896 thousand tonnes in 2019. In Group 4, LUKOIL has two licence areas with greenfields in traditional regions (West Siberia) with total crude oil and gas condensate production of 41 thousand tonnes in 2019.

TAI has had a significant positive impact on development plans for, and production profile of, our licence areas that are subject to TAI.

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

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

	2017	2018	2019	2020	2021	2022	2023	2024 and further
Adjusting factor.....	-	-	0.833	0.667	0.500	0.333	0.167	0

The rate for the next month is based on average Urals price for the period from the 15th day of the previous month to the 14th day of the current month. This calculation methodology results in the so-called “export duty lag effect”, when export duty rate lags the oil price changes, which may result in sizeable impact on our financial results in the periods of high oil price volatility. As a result of the tax manoeuvre, the lag effect will gradually migrate from the export duty to the mineral extraction tax by 2024.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(U.S. dollars per barrel, except %)</i>				
Urals price (Argus)	63.89	(8.4)	69.75	31.4	53.09
Export duty on crude oil	12.85	(27.0)	17.61	48.3	11.88
Mineral extraction tax on crude oil	27.59	1.3	27.24	42.7	19.09
Net Urals price ⁽¹⁾	23.45	(5.8)	24.90	12.6	22.11
Export duty lag effect	0.20	-	(0.19)	-	0.54
Mineral extraction tax lag effect	0.03	-	-	-	-
Net Urals price ⁽¹⁾ assuming no lag	23.22	(7.5)	25.09	16.3	21.57
	<i>(rubles per barrel, except %)⁽²⁾</i>				
Urals price (Argus)	4,136	(5.4)	4,374	41.2	3,098
Export duty on crude oil	832	(24.6)	1,104	59.3	693
Mineral extraction tax on crude oil	1,786	4.6	1,708	53.3	1,114
Net Urals price ⁽¹⁾	1,518	(2.8)	1,562	21.0	1,291
Export duty lag effect	13	-	(12)	-	32
Mineral extraction tax lag effect	2	-	-	-	-
Net Urals price ⁽¹⁾ assuming no lag	1,503	(4.5)	1,574	25.0	1,259

(1) Urals price net of export duty and mineral extraction tax on crude oil.

(2) Translated to rubles using average exchange rate for the period.

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

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

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

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

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

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(U.S. dollars per mcm, except %)⁽¹⁾</i>				
Nakhodkinskoye field	5.48	12.9	4.86	12.0	4.34
Pyakyakhinskoye field	8.26	(3.3)	8.55	3.2	8.28

(1) Translated from rubles using average exchange rates for the period.

	2019	Year ended 31 December		2017	
		% Change	2018		% Change
			(rubles per mcm, except %)		
Nakhodkinskoye field	355	16.6	305	20.4	253
Pyakyakhinskoye field	535	(0.2)	536	10.9	483

Export duty rates on refined products are calculated by multiplying the enacted crude oil export duty rate by a coefficient according to the table below. See “Risk Factors—Risks Relating to the Russian Federation— The Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty”.

	2017 and beyond
Multiplier for:	
Gasolines, diesel fuel and other light and middle distillates	0.30
Straight-run gasoline	0.55
Fuel oil	1.00

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

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

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

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

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

	Year ended 31 December				2017
	2019	% Change	2018	% Change	
			(rubles per tonne, except %)		
Gasoline					
Below Euro-5	13,100	-	13,100	-	13,100
Euro-5	12,314	30.3	9,454	(6.7)	10,130
Diesel fuel					
All ecological classes	8,541	31.6	6,492	(4.5)	6,800
Motor oils	5,400	-	5,400	-	5,400
Middle distillates	9,241	23.4	7,491	(4.0)	7,800
Straight-run gasoline	13,912	6.2	13,100	-	13,100

Established excise tax rates starting from 2018 are listed below.

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

Negative excise tax on refinery feedstock

The reduction of export duties on crude oil in the course of the tax manoeuvre in Russia leads to an increase in feedstock costs for the domestic refineries. This negative effect is partially compensated by a decrease in export duties on refined products, with the remaining part of the negative effect being fully offset by the negative excise

tax implemented from 1 January 2019. The negative excise tax is payable by the Government to the refineries. The negative excise tax rate is calculated separately for each refinery based on the average Urals crude oil price and refinery slate during the month. Our Ukhta refinery benefits from a special uplift regional coefficient of 1.3 applied to the negative excise tax.

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

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

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

	<u>1 January to 30 June</u>	<u>1 July to 31 December</u>	2020 and beyond
	2019	2019	
Compensation coefficient for gasoline.....	0.60	0.75	0.68
Compensation coefficient for diesel fuel	0.60	0.70	0.65

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

	2019	Year ended 31 December 2018	2017
		<i>(U.S. dollars per tonne, except %)⁽¹⁾</i>	
Gasoline.....	56.52	-	-
Diesel fuel.....	72.93	-	-

	2019	Year ended 31 December 2018	2017
		<i>(rubles per tonne, except %)</i>	
Gasoline.....	3,659	-	-
Diesel fuel.....	4,721	-	-

(1) Translated from rubles using average exchange rates for the period.

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

LUKOIL and our Russian subsidiaries file income tax returns in Russia. Certain Russian companies in our Group pay income tax as part of a consolidated taxpayers' group ("CTG"), which enables taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

Our foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which the relevant companies operate.

Transportation Tariffs on Crude Oil, Natural Gas and Refined Products in Russia

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

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

Total proved oil reserves	12,015	(662)	606	(11)	12,082
Total probable oil reserves	4,671				4,855
Total possible oil reserves.....	2,506				2,727

	31 December 2019	Changes in 2019			31 December 2018
		Production ⁽¹⁾	Extensions, discoveries and changes in structure	Revision of previous estimates	
			(bcf)		
West Siberia.....	12,688	(441)	319	87	12,723
Timan-Pechora.....	748	(73)	44	(20)	797
Ural Region	812	(51)	23	8	832
Volga Region.....	2,182	(63)	42	50	2,153
Other in Russia	14	(1)	-	1	14
Outside Russia	6,083	(609)	208	(90)	6,574
Total proved gas reserves.....	22,527	(1,238)	636	36	23,093
Total probable gas reserves.....	9,275				9,414
Total possible gas reserves	2,966				3,091

(1) Gas production shown before Group consumption.

Our proved hydrocarbon reserves as of 31 December 2019 totalled 15,769 mmboe, consisting of 12,015 mmbbl of crude oil and 22,527 bcf of gas, compared to proved hydrocarbon reserves as of 31 December 2018 of 15,931 mmboe, consisting of 12,082 mmbbl of crude oil and 23,093 bcf of gas.

In 2019, we added 642 mmboe in proved reserves as a result of geological exploration and production drilling, which was 11% higher year-on-year compared to 2018. The largest contribution was from the assets in West Siberia, Timan-Pechora and the Russian sector of the Caspian Sea. Acquisition of assets in Russia and abroad in 2019 added an additional 70 mmboe in our proved reserves.

We also added 108 mmboe in proved reserves as a result of positive revisions due to optimisation of development systems and well-work programmes at existing fields, as well as by a conversion of contingent resources to reserves. This addition was more than offset by negative revisions due to an 11% decrease in oil prices and a decrease in the U.S. dollar to ruble exchange rate used for reserves evaluation as compared to 2018.

Segment Information

Our operations are divided into three main business segments:

- *Exploration and Production* – which includes our exploration, development and production operations related to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, Northern and Western Africa, Norway, Romania and Mexico.
- *Refining, Marketing and Distribution* – which includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services.
- *Corporate and other* – which includes operations related to our headquarters (which coordinates the operations of Group companies), finance activities and certain other activities.

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors described in “—Main Macroeconomic Factors Affecting Our Results of Operations—Domestic Crude Oil and Refined Products Prices” above, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. For a presentation of separate financial data for each of our main business segments, see Note 33 “Segment information” to our consolidated financial statements for 2019 included elsewhere in this prospectus.

Operational Highlights

Hydrocarbon production

The following table summarises our hydrocarbon production by major regions for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
<i>(mboe per day, except %)</i>					
Crude oil and natural gas liquids production					
Consolidated subsidiaries					
West Siberia.....	765	(1.2)	774	(3.4)	801
Timan-Pechora.....	317	(0.3)	318	1.9	312
Ural region.....	334	1.8	328	1.2	324
Volga region.....	235	2.6	229	15.1	199
Other in Russia.....	32	-	32	(3.0)	33
Total in Russia.....	1,683	0.1	1,681	0.7	1,669
Iraq ⁽¹⁾	30	7.1	28	(17.6)	34
Other outside Russia.....	52	10.6	47	4.4	45
Total outside Russia.....	82	9.3	75	(5.1)	79
Total consolidated subsidiaries.....	1,765	0.5	1,756	0.5	1,748
Our share in equity affiliates					
in Russia.....	13	-	13	(31.6)	19
outside Russia.....	37	-	37	-	37
Total share in equity affiliates.....	50	-	50	(10.7)	56
Total crude oil and natural gas liquids.....	1,815	0.5	1,806	0.1	1,804
Natural and petroleum gas⁽²⁾					
Consolidated subsidiaries					
West Siberia.....	201	(4.3)	210	(3.2)	217
Timan-Pechora.....	33	-	33	(5.7)	35
Ural region.....	23	53.3	15	(6.3)	16
Volga region.....	28	3.7	27	17.4	23
Other in Russia.....	1	-	1	-	1
Total in Russia.....	286	-	286	(2.1)	292
Uzbekistan.....	228	5.6	216	66.2	130
Other outside Russia.....	40	48.1	27	6.9	29
Total outside Russia.....	268	10.3	243	52.8	159
Total consolidated subsidiaries.....	554	4.7	529	17.3	451
Share in equity affiliates					
in Russia.....	1	(28.6)	2	-	2
outside Russia.....	10	3.3	10	(16.7)	12
Total share in production of equity affiliates.....	11	(8.3)	12	(14.3)	14
Total natural gas and petroleum gas.....	565	4.4	541	16.3	465
Total daily hydrocarbon production.....	2,380	1.4	2,347	3.4	2,269
Including natural gas liquids produced at the gas processing plants.....	44	3.6	42	16.7	36

(1) Compensation crude oil related to the Group.

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

Crude oil production by major regions is presented in the table below for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
<i>(thousands of tonnes, except %)</i>					
West Siberia.....	36,999	(1.3)	37,471	(3.4)	38,779
Timan-Pechora.....	16,099	(0.2)	16,124	1.8	15,837
Ural region.....	15,527	1.8	15,251	0.7	15,139
Volga region.....	11,207	2.2	10,969	14.8	9,554
Other in Russia.....	1,626	1.8	1,597	(5.3)	1,686
Crude oil produced in Russia.....	81,458	0.1	81,412	0.5	80,995
Iraq ⁽¹⁾	1,616	6.7	1,514	(16.9)	1,822
Other outside Russia.....	2,110	11.0	1,901	(5.1)	2,003
Crude oil produced outside Russia.....	3,726	9.1	3,415	(10.7)	3,825
Total crude oil produced by consolidated subsidiaries.....	85,184	0.4	84,827	0.0	84,820

Our share in crude oil produced by equity affiliates:					
in Russia	610	(3.6)	633	(28.4)	884
outside Russia	1,694	1.8	1,664	(2.7)	1,710
Total crude oil produced.....	87,488	0.4	87,124	(0.3)	87,414

(1) Compensation crude oil related to the Group.

Our main oil producing region is the West Siberia region of Russia, which accounted for 43.4% of our crude oil produced in 2019 (compared to 44.2% in 2018 and 45.7% in 2017).

The dynamics of our crude oil production volumes in 2019 in Russia were mainly driven by external limitations due to an agreement of the OPEC+ countries, including Russia, to cap production levels in order to stabilise the global crude oil market. We implemented external production limitations through reducing production in our traditional regions (West Siberia, Timan-Pechora and Ural) at the least-productive fields and fields with high water-cuts. As a result of the external limitations we cut our production in the beginning of 2017, increased production in the middle 2018 and cut production in the beginning of 2019.

In 2019, the active development of the largest greenfield projects in the Volga region was on track. We produced 6,387 thousand tonnes of crude oil at the V. Filanovsky field in 2019, an increase of 5%, compared to 2018. Additionally, we launched the third stage of the V. Filanovsky field in November 2019. In 2019, crude oil production at the Yu. Korchagin field increased by 21%, compared to 2018. This increase was due to a drilling programme at the field's second development stage.

In 2019, the development of the Yaregskoye field and Permian reservoir of the Usinskoye field in Timan-Pechora (including the launch of new steam-generating facilities) led to an increase in the high viscosity crude oil production to a total of 4.9 million tonnes, or an increase of 15% compared to 2018.

The development of growth projects in West Siberia also continued. The aggregate crude oil and gas condensate production at the V. Vinogradov, Imilorskoye and Pyakyakhinskoye fields in 2019 increased by 17%, compared to 2018.

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

Gas production by major regions is presented in the table below for the periods indicated.

	Year ended 31 December ⁽¹⁾				
	2019	% Change	2018	% Change	2017
Gas Production	<i>(mmcm, except %)</i>				
West Siberia	12,492	(3.9)	13,001	(3.5)	13,479
Timan-Pechora	2,050	(1.1)	2,072	(4.3)	2,166
Ural region	1,432	55.1	923	(5.6)	978
Volga region.....	1,711	1.2	1,690	18.6	1,425
Other in Russia.....	24	(7.7)	26	(18.8)	32
Gas produced in Russia	17,709	-	17,712	(2.0)	18,080
Uzbekistan.....	14,130	6.5	13,262	64.6	8,055
Other outside Russia.....	2,478	35.1	1,834	0.2	1,830
Gas produced outside Russia.....	16,608	10.0	15,096	52.7	9,885
Total gas produced by consolidated subsidiaries	34,317	4.6	32,808	17.3	27,965
Our share in gas produced by equity affiliates:					
in Russia.....	88	(4.3)	92	(4.2)	96
outside Russia.....	641	(0.3)	643	(19.6)	800
Total gas produced.....	35,046	4.5	33,543	16.2	28,861

(1) Gas production excluding flaring, reinjection and usage at the Group's gas processing plants.

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced from the Nakhodkinskoye and Pyakyakhinskoe fields. Outside Russia, our main gas production region is Uzbekistan where we have shares in two PSAs.

In 2019, our gas production was 35.0 bcf, which was 4.5% higher, compared to 2018. The main driver of this gas production growth was the development of projects in Uzbekistan and Azerbaijan. As a result of the launch of the second stage of the Kandym gas processing plant in April 2018, our international gas production (including our share in affiliates' production) increased by 9.6% in 2019. In the fourth quarter of 2019, we started pilot production at the Yuzhno-Messoyakhskoye gas condensate field in West Siberia (Bolshekhetskaya depression) and launched a compressor booster station at the Nakhodkinskoye field.

West Qurna-2 Project

The West Qurna-2 field in Iraq has been developed under a service contract, signed in January 2010. In May 2018, we signed a new field development plan with the Basra Oil Company according to which, crude oil production is planned to increase to 800 thousand barrels per day by 2025.

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

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

There are two steps of revenue recognition:

- The Basra Oil Company approves a quarterly invoice for the cost compensation and remuneration fee for which the Group company is eligible in the period. The total amount of the invoice depends on crude oil production volumes and the amount of costs claimed for reimbursement. The amount of the approved invoice, including the remuneration fee, is recognised in crude oil sales revenue.
- Based on the approved invoices, the Basra Oil Company arranges shipments of crude oil against its liability for the cost compensation and remuneration fee. As this crude oil is actually shipped, the cost is recognised at the current market price in *Cost of purchased crude oil, gas and products*. Revenue from sales of this crude oil, or products from its refining, is recognised in *Sales (including excise and export tariffs)*. Unsold crude oil and refined products are recognised in *Inventories*.

The following table summarises data on capital and operating costs incurred, compensation crude oil received, costs yet unrecovered and remuneration fee in respect of the West Qurna-2 project.

	Costs incurred⁽¹⁾	Remuneration fee	Crude oil received	Crude oil to be received
		<i>(millions of U.S. dollars)</i>		
Cumulative at 31 December 2018.....	8,597	424	8,681	340
Change in 2019.....	632	124	561	195
Cumulative at 31 December 2019.....	9,229	548	9,242	535

(1) Including prepayments.

The West Qurna-2 project summary is presented below:

	Year ended 31 December									
	2019		% Change		2018		% Change		2017	
	<i>(mbls)</i>	<i>(thousand tonnes)</i>	<i>(mbls)</i>	<i>(thousand tonnes)</i>	<i>(mbls)</i>	<i>(thousand tonnes)</i>	<i>(mbls)</i>	<i>(thousand tonnes)</i>	<i>(mbls)</i>	<i>(thousand tonnes)</i>
Total production.....	142,684	20,860	2.3	2.3	139,430	20,385	(2.0)	(2.0)	142,224	20,793
Production related to cost compensation and remuneration ...	11,054	1,616	6.7	6.7	10,355	1,514	(16.9)	(16.9)	12,466	1,822
Shipment of compensation crude oil ⁽¹⁾	9,412	1,376	(26.8)	(26.8)	12,851	1,879	8.4	8.4	11,854	1,733

	(millions of RUB)		Change (million of RUB)		Change (million of US\$)		Change (million of RUB)		Change (million of US\$)	
			%	%	%	%	%	%	%	%
Cost compensation.....	35,836	554	9.7	5.9	32,665	523	1.1	(5.6)	32,322	554
Remuneration fee.....	8,023	124	(17.2)	(19.0)	9,685	153	82.5	68.1	5,307	91
	43,859	678	3.6	0.3	42,350	676	12.5	4.8	37,629	645
Cost of compensation crude oil, received as debt settlement (included in <i>Cost of purchased crude oil, gas and products</i>) ⁽¹⁾	36,225	560	(31.4)	(33.3)	52,817	839	59.1	48.0	33,191	567
Extraction expenses	17,010	263	(3.3)	(6.1)	17,588	280	8.7	0.7	16,178	278
Depreciation, depletion and amortisation	18,950	293	24.5	19.1	15,218	246	(7.5)	(12.8)	16,454	282

(1) This crude oil is sold to third-party customers or delivered to our refineries. After realisation of these products, respective sales revenues are recognised.

We are exposed to political, economic and legal risks in connection with our operations in Iraq. We continue to monitor the risks associated with the projects in Iraq. See “—Risks Relating to Our Business and the Oil and Gas Industry—We may not be able to realise opportunities in Iraq” and “Business—Exploration and Production—International Exploration and Production—Iraq—West Qurna-2” for information on our rights in relation to the West Qurna-2 oil field.

Refining and Petrochemicals

The following table summarises key figures for our refining and petrochemical volumes for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(thousands of tonnes, except %)</i>				
Refinery throughput at the Group refineries.....	68,746	2.1	67,316	0.1	67,240
- in Russia.....	44,154	2.2	43,189	0.2	43,107
- outside Russia, including.....	24,592	1.9	24,127	(0.02)	24,133
- crude oil	22,673	6.6	21,270	(3.2)	21,970
- refined products.....	1,919	(32.8)	2,857	32.1	2,163
Refinery throughput at third-party refineries.....	4,460	(31.9)	6,547	0.0	6,547
Total refinery throughput.....	73,206	(0.9)	73,863	0.1	73,787
Production of the Group refineries in Russia⁽¹⁾	41,831	2.1	40,985	0.6	40,746
- diesel fuel	16,532	2.0	16,215	2.9	15,757
- motor gasoline	7,864	(2.0)	8,022	(1.5)	8,143
- fuel oil	4,657	(3.3)	4,814	(9.4)	5,312
- jet fuel	2,843	3.0	2,760	0.6	2,744
- lubricants and components	963	0.2	961	(17.4)	1,163
- straight-run gasoline	2,655	23.9	2,143	(2.2)	2,192
- vacuum gas oil.....	332	(60.7)	844	44.0	586
- bitumen.....	908	14.5	793	(10.7)	888
- coke.....	1,072	(3.1)	1,106	12.6	982
- bunker fuel	1,546	(2.8)	1,591	(10.3)	1,774
- gas products.....	317	(10.7)	355	4.4	340
- petrochemicals.....	392	19.9	327	(13.7)	379
- other products.....	1,750	66.0	1,054	116.9	486
Production of the Group refineries outside Russia	23,250	2.0	22,789	0.2	22,745
- diesel fuel	10,570	9.9	9,619	(2.6)	9,871
- motor gasoline	5,065	11.4	4,545	(11.6)	5,140
- fuel oil	2,121	(21.7)	2,710	(8.8)	2,973
- jet fuel	1,149	(3.5)	1,191	13.5	1,049
- straight-run gasoline	2,285	10.2	2,073	9.3	1,897
- coke.....	107	(48.1)	206	8.4	190
- gas products.....	588	18.1	498	4.4	477
- petrochemicals.....	43	(15.7)	51	21.4	42
- other products.....	1,322	(30.3)	1,896	71.4	1,106
Refined products produced by the Group.....	65,081	2.0	63,774	0.4	63,491
Refined products produced at third-party refineries	4,215	(34.3)	6,414	(0.04)	6,417
Total refined products produced	69,296	(1.3)	70,188	0.4	69,908

Reference: Net of cross-supplies of refined products between the Group refineries	1,561	(1.8)	1,589	(6.6)	1,702
Products produced at petrochemical plants and facilities.....	1,137	(8.7)	1,246	6.4	1,171
- in Russia.....	790	(15.4)	934	17.0	798
- outside Russia.....	347	11.2	312	(16.4)	373

(1) Net of cross-supplies of refined products among the Group.

In 2019, refinery throughput at our Group refineries was 68.7 million tonnes, or an increase of 2.1% compared to 2018. We continued enhancing the product slate with fuel oil production volumes being 10% lower than in 2018.

Production at our refineries in Russia increased by 2.2% in 2019, compared to 2018, due to higher utilisation rates of our Nizhny Novgorod refinery.

Outside Russia, the growth of 1.9% in production at our refineries in 2019 was due to the maintenance at the refinery in Bulgaria in the first quarter of 2018.

In the periods considered, we processed our crude oil at third-party refineries in Belarus, Kazakhstan and Canada. In 2016, a Group company entered into a tolling agreement with a Canadian refinery, which was originally valid through 2019 and, in August 2019, was subsequently prolonged until 31 August 2022 with a modification of certain provisions that changed its substance from a tolling agreement to a financial arrangement. As a result of this modification, starting from September 2019, we ceased to recognise throughput and production costs related to this arrangement. We now recognise interest earned on the financing provided and administrative fee. See “—Results of Operations—Year Ended 31 December 2019 Compared to Year Ended 31 December 2018 and Year Ended 31 December 2018 Compared to Year Ended 31 December 2017—Operating expenses—Refining expenses at third-party refineries” for more information. In 2019 the refined products output related to this agreement amounted to 4.0 million tonnes (6.2 million tonnes in 2018).

Marketing and Trading

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

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

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

The following table sets forth the volumes of crude oil purchases by the Group during the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
Crude oil purchases					
	<i>(thousands of tonnes, except %)</i>				
in Russia	756	(13.5)	874	(9.1)	962
for trading internationally	52,299	12.8	46,345	28.2	36,137
for refining internationally	21,686	(3.7)	22,527	-	22,527
Shipment of West Qurna-2 compensation crude oil....	1,376	(26.8)	1,879	8.4	1,733
Total crude oil purchased.....	76,117	6.3	71,625	16.7	61,359

The table below summarises figures for our refined products and petrochemicals marketing and trading activities for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(thousands of tonnes, except %)</i>				
Refined products retail sales	14,129	(6.7)	15,144	6.4	14,238
Refined products wholesale sales.....	106,898	(1.4)	108,397	(5.2)	114,283
Total refined products sales	121,027	(2.0)	123,541	(3.9)	128,521

Refined products purchased in Russia.....	920	(25.9)	1,242	(24.5)	1,645
Refined products purchased internationally	53,274	(2.7)	54,728	(6.2)	58,367
Total refined products purchased.....	54,194	(3.2)	55,970	(6.7)	60,012
Petrochemical products purchased in Russia	39	14.7	34	(10.5)	38
Petrochemical products purchased internationally	1,049	79.9	583	15.0	507
Total petrochemical products purchased.....	1,088	76.3	617	13.2	545

Exports of Crude Oil and Refined Products from Russia

The volumes of crude oil and refined and petrochemical products exported from Russia by our subsidiaries are summarised as follows:

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Exports of crude oil to Customs Union.....	63,879	(0.2)	64,015	33.3	48,017
Exports of crude oil beyond Customs Union	996,096	(4.3)	1,040,747	42.6	730,049
Total crude oil exports.....	1,059,975	(4.1)	1,104,762	42.0	778,066
	<i>(thousands of tonnes, except %)</i>				
Exports of crude oil to Customs Union.....	2,716	(1.1)	2,745	(2.2)	2,807
Exports of crude oil beyond Customs Union	34,378	1.2	33,956	0.5	33,779
Total crude oil exports.....	37,094	1.1	36,701	0.3	36,586
Exports of crude oil through Transneft and other 3 rd party infrastructure	28,274	1.2	27,946	2.3	27,329
ESPO pipeline	1,738	40.2	1,240	8.8	1,140
CPC Pipeline.....	5,281	10.4	4,783	38.0	3,467
Exports of crude oil through the Group's transportation infrastructure	8,820	0.7	8,755	(5.4)	9,257
Total crude oil exports.....	37,094	1.1	36,701	0.3	36,586
	<i>(millions of rubles, except %)</i>				
Refined and petrochemical products exports	623,632	4.8	594,868	28.2	464,141
	<i>(thousands of tonnes, except %)</i>				
Refined products exports					
Diesel fuel	10,205	4.4	9,773	(2.9)	10,060
Gasoline.....	491	111.6	232	(29.9)	331
Fuel oil	1,962	29.3	1,517	(45.1)	2,762
Jet fuel	10	(79.6)	49	(41.7)	84
Lubricants and components	629	4.8	600	(3.7)	623
Gas refinery products.....	769	18.3	650	16.7	557
Other products	4,663	36.2	3,423	10.2	3,107
Total refined products exports	18,729	15.3	16,244	(7.3)	17,524
Total petrochemicals exports.....	302	(10.7)	338	16.2	291

In 2019, the volume of our crude oil exports from Russia increased by 1.1%, compared to 2018. We exported 45.5% of our domestic crude oil production (45.1% in 2018 and 45.2% in 2017). Our export volumes included 171 thousand tonnes of crude oil purchased from our affiliates and third parties in 2019 (185 thousand tonnes in 2018 and 366 thousand tonnes in 2017).

The volume of our refined products exports increased by 15.3% compared to 2018 against the background of relatively low volumes of exports in 2018 due to high demand for our product in our domestic market in 2018.

We use the Transneft infrastructure for a substantial amount of our crude oil exports. Nevertheless, a sizeable amount of crude oil is exported through our own infrastructure, which allows us to preserve the premium quality of crude oil and to achieve higher netback prices. From 2017 to 2019, all of our exported crude oil that bypassed the Transneft infrastructure was routed beyond the Customs Union.

Apart from our own infrastructure, we also export light crude oil through the CPC and ESPO pipelines that allows us to preserve the premium quality of crude oil and to achieve higher netback prices compared to traditional export routes.

Priority Sales Channels

We develop our priority sales channels with the aim of increasing our sales margin for refined products produced by the Group.

In 2019, we sold 9.9 million tonnes (10.9 million tonnes in 2018 and 10.1 million tonnes in 2017) of motor fuels via our domestic retail network, which represented a decrease of 9.1% compared to 2018 due to higher domestic demand for our products in 2018. Outside Russia, retail sales did not change significantly compared to 2018.

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

Power Generation

We have established a vertically integrated chain from generation to transportation and sale of power and heat for third-party customers (commercial generation) and our own consumption. We own commercial generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In 2019, our total output of commercial electrical energy was 18.3 billion kWh (19.9 billion kWh in 2018 and 20.1 billion kWh in 2017), and our total output of commercial heat energy was approximately 10.1 million Gcal (11.0 million Gcal in 2018 and 10.7 million Gcal in 2017).

Results of Operations

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

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Revenues					
Sales (including excise and export tariffs)	7,841,246	(2.4)	8,035,889	35.4	5,936,705
Costs and other deductions					
Operating expenses	(457,710)	(1.5)	(464,467)	1.7	(456,765)
Cost of purchased crude oil, gas and products	(4,308,073)	(5.0)	(4,534,244)	44.9	(3,129,864)
Transportation expenses	(278,798)	3.2	(270,153)	(1.0)	(272,792)
Selling, general and administrative expenses	(197,172)	2.5	(192,433)	16.4	(165,331)
Depreciation, depletion and amortisation	(415,094)	21.0	(343,085)	5.5	(325,054)
Taxes other than income taxes	(928,190)	3.2	(899,383)	48.3	(606,510)
Excise and export tariffs	(425,763)	(23.5)	(556,827)	20.6	(461,525)
Exploration expenses	(9,348)	161.0	(3,582)	(71.0)	(12,348)
Profit from operating activities	821,098	6.4	771,715	52.4	506,516
Finance income	25,134	28.7	19,530	28.9	15,151
Finance costs	(44,356)	15.8	(38,298)	40.1	(27,331)
Equity share in income of affiliates	18,246	(27.7)	25,243	49.7	16,864
Foreign exchange gain (loss)	923	(97.3)	33,763	(269.3)	(19,948)
Other (expenses) income	(27,691)	(28.9)	(38,934)	(218.2)	32,932
Profit before income taxes	793,354	2.6	773,019	47.5	524,184
Current income taxes	(144,615)	5.5	(137,062)	37.1	(99,976)
Deferred income taxes	(6,518)	(56.1)	(14,855)	292.4	(3,786)
Total income tax expense	(151,133)	(0.5)	(151,917)	46.4	(103,762)
Profit for the year	642,221	3.4	621,102	47.7	420,422
Profit for the year attributable to non-controlling interests	(2,043)	6.0	(1,928)	19.2	(1,617)
Profit for the year attributable to PJSC "LUKOIL" shareholders	640,178	3.4	619,174	47.8	418,805
Earnings per share of common stock attributable to PJSC "LUKOIL" shareholders (in rubles):					
Basic	963.28	10.2	874.47	48.4	589.14
Diluted	934.73	8.0	865.19	46.9	589.14

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

Sales Revenues

The following table sets forth our sales revenues by type of product and market for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Crude oil					
Export and sales on international markets other than Customs Union.....	2,575,571	0.6	2,559,578	64.4	1,556,811
Export and sales to Customs Union	64,890	1.0	64,228	37.2	46,798
Domestic sales	22,528	(52.6)	47,508	26.6	37,525
	2,662,989	(0.3)	2,671,314	62.8	1,641,134
Cost compensation and remuneration at the West Qurna-2 project	43,859	3.6	42,350	12.5	37,629
	2,706,848	(0.3)	2,713,664	61.6	1,678,763
Refined products⁽¹⁾					
Export and sales on international markets					
Wholesale	3,403,202	(5.8)	3,612,291	26.2	2,863,379
Retail.....	345,162	(1.2)	349,493	24.4	280,847
Domestic sales					
Wholesale	443,667	1.0	439,327	22.0	360,182
Retail.....	480,048	(3.8)	498,765	19.9	415,820
	4,672,079	(4.6)	4,899,876	25.0	3,920,228
Petrochemicals					
Export and sales on international markets.....	91,687	35.5	67,682	40.5	48,187
Domestic sales	40,971	(11.1)	46,085	33.8	34,451
	132,658	16.6	113,767	37.7	82,638
Gas					
Sales on international markets	138,997	23.0	112,990	106.9	54,611
Domestic sales	32,490	(2.6)	33,352	7.2	31,109
	171,487	17.2	146,342	70.7	85,720
Sales of energy and related services					
Sales on international markets	14,604	(6.4)	15,600	21.1	12,884
Domestic sales	53,276	(2.0)	54,353	(10.9)	61,028
	67,880	(3.0)	69,953	(5.4)	73,912
Other					
Export and sales on international markets	48,024	4.0	46,160	(7.2)	49,717
Domestic sales.....	42,270	(8.4)	46,127	0.9	45,727
	90,294	(2.2)	92,287	(3.3)	95,444
Total sales	7,841,246	(2.4)	8,035,889	35.4	5,936,705

(1) Including revenues from gas refined products sales.

Sales Volumes

The following table sets forth our sales volumes by type of product and market for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(thousand tonnes, except %)</i>				
Crude oil					
Export and sales on international markets other than Customs Union.....	84,281	6.8	78,914	16.2	67,935
Export and sales to Customs Union	2,753	-	2,754	0.5	2,741
Domestic sales	947	(54.1)	2,061	(10.2)	2,294
	87,981	5.1	83,729	14.7	72,970
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project.....	1,616	6.7	1,514	(16.9)	1,822
	89,597	5.1	85,243	14.0	74,792
Refined products⁽¹⁾					
Export and sales on international markets					
Wholesale	92,392	(1.4)	93,676	(5.9)	99,544
Retail.....	4,194	(0.5)	4,217	1.5	4,155
Domestic sales					
Wholesale	14,506	(1.5)	14,721	(0.1)	14,739
Retail.....	9,935	(9.1)	10,927	8.4	10,083
	121,027	(2.0)	123,541	(3.9)	128,521

Petrochemicals					
Export and sales on international markets.....	1,547	54.1	1,004	5.8	949
Domestic sales.....	699	(7.3)	754	7.9	699
	2,246	27.8	1,758	6.7	1,648
			<i>(mmcm, except %)</i>		
Gas					
Sales on international markets.....	15,785	11.4	14,173	56.0	9,086
Domestic sales.....	12,942	(5.7)	13,723	(0.2)	13,751
	28,727	3.0	27,896	22.2	22,837

(1) Including volumes of gas refined products sales.

Realised Average Sales Prices

The following table sets forth our average realised sales prices for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
<i>(rubles per barrel, except %)</i>					
Average realised price on international markets					
Crude oil (beyond Customs Union) ⁽¹⁾	4,169	(5.8)	4,425	41.5	3,126
Crude oil (Customs Union).....	3,216	1.1	3,182	36.6	2,329
<i>(rubles per tonne, except %)</i>					
Refined products					
Wholesale.....	36,834	(4.5)	38,562	34.1	28,765
Retail.....	82,299	(0.7)	82,877	22.6	67,593
Petrochemicals.....	59,268	(12.1)	67,412	32.8	50,777
<i>(rubles per mcm, except %)</i>					
Gas (excluding royalty).....	8,806	10.5	7,972	32.6	6,010
<i>(U.S. dollars per barrel, except %)</i>					
Crude oil (beyond Customs Union) ⁽¹⁾	64.40	(8.7)	70.56	31.7	53.58
Crude oil (Customs Union).....	49.67	(2.1)	50.74	27.1	39.92
<i>(U.S. dollars per tonne, except %)</i>					
Refined products					
Wholesale.....	569	(7.5)	615	24.7	493
Retail.....	1,271	(3.8)	1,322	14.2	1,158
Petrochemicals.....	916	(14.8)	1,075	23.6	870
<i>(U.S. dollars per mcm, except %)</i>					
Gas (excluding royalty).....	136	7.0	127	23.4	103
<i>(rubles per barrel, except %)</i>					
Average realised price within Russia					
Crude oil.....	3,245	3.2	3,145	40.9	2,232
<i>(rubles per tonne, except %)</i>					
Refined products					
Wholesale.....	30,585	2.5	29,844	22.1	24,437
Retail.....	48,319	5.9	45,645	10.7	41,240
Petrochemicals.....	58,614	(4.1)	61,121	24.0	49,286
<i>(rubles per mcm, except %)</i>					
Gas ⁽²⁾	2,510	3.3	2,430	7.4	2,262

(1) Excluding cost compensation and remuneration at the West Qurna-2 project.

(2) The price does not include cost of transportation by UGSS of Gazprom, as most of our gas production in Russia is sold ex-field.

Year Ended 31 December 2019 Compared to Year Ended 31 December 2018 and Year Ended 31 December 2018 Compared to Year Ended 31 December 2017

Revenues

2019 vs. 2018

In 2019, our revenues decreased by RUB 195 billion, or by 2.4%, compared to 2018. Our revenues decreased largely due to a decrease in hydrocarbon prices and refined products trading volumes. The decrease was partially offset by the effect of the ruble depreciation on our revenues denominated in U.S. dollars, as well as higher gas sales and petrochemical products trading volumes.

2018 vs. 2017

In 2018, our revenues increased by RUB 2,099 billion, or by 35.4%, compared to 2017. Our revenues from crude oil sales increased by RUB 1,035 billion, or by 61.6%, and our revenues from sales of refined products increased by RUB 980 billion, or by 25%, compared to 2017. Our revenues from sales of gas increased by RUB 61 billion, or by 70.7%, compared to 2017. These increases in revenues were largely the result of increases in hydrocarbon prices, gas production volumes and crude oil trading volumes, as well as the effect of the ruble depreciation on our revenues denominated in U.S. dollars and euro.

Sales of crude oil

2019 vs. 2018

Compared to 2018, our international crude oil sales revenue did not change significantly in 2019. A decrease in crude oil prices was offset by an increase in trading volumes. At the same time, our domestic sales volumes decreased by 1,114 thousand tonnes, or by 54.1%, due to an increase in refinery throughput and our sales revenue decreased consequently compared to 2018.

2018 vs. 2017

In 2018, our international crude oil sales revenue (beyond the Customs Union) increased by RUB 1,003 billion, or by 64.4%, compared to 2017. In 2018, our international sales volumes (beyond the Customs Union) increased by 10,979 thousand tonnes, or by 16.2% compared to 2017. The increase was due to higher volumes of crude oil trading. Our average international ruble realised prices (beyond the Customs Union) increased by 41.5% compared to 2017. At the same time, our domestic sales volumes decreased by 233 thousand tonnes, or by 10.2%, while our realised domestic crude oil sales price increased by 40.9%, compared to 2017. Due to the crude oil sales price increase, in 2018, our domestic sales revenue increased by RUB 10 billion, or by 26.6%, compared to 2017.

Sales of refined products

The following tables set forth sales of our refined products by type of product and market for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Wholesale outside Russia	3,403,202	(5.8)	3,612,291	26.2	2,863,379
diesel fuel	1,637,550	1.8	1,608,595	25.2	1,284,779
motor gasoline	637,327	(14.6)	746,274	17.3	636,138
fuel oil	521,882	(2.3)	534,155	24.1	430,470
jet fuel	97,202	(23.4)	126,840	12.8	112,461
lubricants and components	65,726	(10.3)	73,300	19.9	61,141
gas products	53,515	(6.6)	57,274	26.1	45,424
others	390,000	(16.3)	465,853	59.0	292,966
Retail outside Russia	345,162	(1.2)	349,493	24.4	280,847

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
Wholesale in Russia	443,667	1.0	439,327	22.0	360,182
diesel fuel	116,906	18.0	99,090	26.5	78,308
motor gasoline	48,539	(3.4)	50,254	(9.1)	55,275
fuel oil	33,124	(24.8)	44,070	77.7	24,796
jet fuel	128,672	7.2	120,042	23.3	97,333
lubricants and components	25,265	(3.7)	26,236	(0.3)	26,326
gas products.....	10,903	(26.5)	14,839	31.8	11,260
others.....	80,258	(5.4)	84,796	26.8	66,884
Retail in Russia	480,048	(3.8)	498,765	19.9	415,820
Total refined products sales	4,672,079	(4.6)	4,899,876	25.0	3,920,228

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
<i>(thousands of tonnes, except %)</i>					
Wholesale outside Russia	92,392	(1.4)	93,676	(5.9)	99,544
diesel fuel	39,002	7.0	36,455	(8.2)	39,719
motor gasoline	15,015	(10.7)	16,806	(8.1)	18,281
fuel oil	20,121	(3.0)	20,733	(11.5)	23,425
jet fuel	2,323	(18.4)	2,846	(20.5)	3,578
lubricants and components	997	(13.1)	1,147	-	1,147
gas products.....	1,902	10.6	1,720	8.9	1,579
others.....	13,032	(6.7)	13,969	18.2	11,815
Retail outside Russia.....	4,194	(0.5)	4,217	1.5	4,155
diesel fuel	2,814	(0.6)	2,831	2.4	2,765
motor gasoline	1,195	(0.6)	1,202	(0.2)	1,205
gas products.....	185	0.5	184	(0.5)	185
Wholesale in Russia	14,506	(1.5)	14,721	(0.1)	14,739
diesel fuel	2,733	14.1	2,396	6.4	2,252
motor gasoline	1,257	1.2	1,242	(17.0)	1,497
fuel oil	2,184	(20.5)	2,746	23.7	2,219
jet fuel	3,138	6.9	2,936	(3.0)	3,027
lubricants and components	361	0.6	359	(10.3)	400
gas products.....	648	(14.3)	756	(5.7)	802
others.....	4,185	(2.4)	4,286	(5.6)	4,542
Retail in Russia	9,935	(9.1)	10,927	8.4	10,083
diesel fuel	3,715	(10.0)	4,128	16.0	3,559
motor gasoline	6,161	(8.5)	6,734	4.2	6,462
gas products.....	59	(9.2)	65	4.8	62
Total refined products sales	121,027	(2.0)	123,541	(3.9)	128,521

2019 vs. 2018

In 2019, our revenue from the wholesale of refined products outside Russia decreased by RUB 209 billion, or by 5.8%, compared to 2018. The decrease was mainly due to a decrease in sales volumes and prices in U.S. dollars term and was partially offset by the effect of the ruble devaluation.

In 2019, our international retail revenue decreased by RUB 4 billion, or by 1.2%, compared to 2018. The decrease was mainly due to a decrease in sales volumes and in our realised prices.

Despite a decrease in sales volumes in 2019, our revenue from the wholesale of refined products on the domestic market increased by RUB 4 billion, or by 1.0%, compared to 2018. The increase was due to growth of our realised prices.

In 2019, our revenue from refined products retail sales in Russia decreased by RUB 19 billion, or by 3.8%, compared to 2018 as a result of a decrease in sales volumes in 2019 as compared to high demand for our products in 2018 that was partially offset by an increase in our realised prices.

2018 vs. 2017

Compared to 2017, our revenue from the wholesale of refined products outside Russia increased by RUB 749 billion, or by 26.2%, which was mainly price driven. Compared to 2017, our U.S. dollar and ruble realised prices for wholesale refined products outside Russia increased by 24.7% and 34.1% in 2018, respectively. Our sales volumes decreased by 5.9%, as a result of the decrease in volumes of trading.

In 2018, our U.S. dollar and ruble realised retail prices outside Russia increased by 14.1% and by 22.6%, respectively. Our sales volumes of retail refined products outside Russia increased by 1.5% compared to 2017. As a result, our international retail revenue from refined product sales increased by RUB 69 billion, or by 24.4%, compared to 2017.

In 2018, our revenue from the wholesale of refined products on the domestic market increased by RUB 79 billion, or by 22.0%, compared to 2017. Our realised prices increased by 22.1%, while sales volumes did not change significantly, compared to 2017.

In 2018, our revenue from refined products retail sales in Russia increased by RUB 83 billion, or by 19.9%, compared to 2017. Our average domestic retail prices and volumes both increased by 10.7% and by 8.4%, respectively, when compared to 2017. The increase of retail sales volumes was due to higher domestic demand.

Sales of petrochemical products

2019 vs. 2018

In 2019, our revenue from sales of petrochemical products increased by RUB 19 billion, or by 16.6%, compared to 2018 as a result of increased trading volumes outside Russia. The increase was partially offset by a decrease in our average realised sales prices.

2018 vs. 2017

In 2018, our revenue from sales of petrochemical products increased by RUB 31 billion, or by 37.7%, compared to 2017, largely due to a growth in realised prices and an increase in trading volumes outside Russia.

Sales of gas

2019 vs. 2018

Our revenue from sales of gas increased by RUB 25 billion, or by 17.2%, compared to 2018. This increase was mostly due to our operations outside Russia and was a result of natural gas production growth in Uzbekistan. Higher gas prices also contributed to an increase in our gas sales revenue.

2018 vs. 2017

Compared to 2017, our revenue from sales of gas increased by RUB 61 billion, or by 70.7%, in 2018. This increase was mostly due to our operations outside Russia and production growth in the Gissar and Kandym projects in Uzbekistan. The increase was also due to higher gas prices.

Sales of energy and related services

2019 vs. 2018

In 2019, our revenue from sales of energy and related services decreased by RUB 2 billion, or by 3.0%, compared to 2018 due to repair works at our facilities in the Krasnodar region.

2018 vs. 2017

In 2018, our revenue from sales of energy and related services decreased by RUB 4 billion, or by 5.4%, compared to 2017. The decrease was mainly due to the sale of an energy distribution subsidiary in Russia in the fourth quarter of 2017.

Other sales

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

2019 vs. 2018

In 2019, revenue from other sales decreased by RUB 2 billion, or by 2.2%, compared to 2018, which was largely due to discontinuing our non-core car sales business in Russia. Other sales revenue in 2019 included RUB 2.2 billion (approximately €30 million) of loss compensation in relation to energy that we supplied in Sicily, Italy in 2016.

2018 vs. 2017

In 2018, revenue from other sales decreased by RUB 3 billion, or by 3.3%, compared to 2017. The decrease was largely due to the sale of our diamond business in June 2017. The decrease was partially offset by the effect of the ruble depreciation on our revenues denominated in other currencies.

Operating expenses

Operating expenses include the following:

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Hydrocarbon extraction expenses ⁽¹⁾	193,857	(1.2)	196,227	1.8	192,781
Extraction expenses at the West Qurna-2 field	17,010	(3.3)	17,588	8.7	16,178
Own refining expenses.....	96,543	(8.0)	104,987	21.4	86,508
Refining expenses at third-party refineries.....	7,175	(10.5)	8,020	(47.9)	15,403
Expenses for crude oil transportation to refineries	52,884	5.2	50,264	3.1	48,754
Power generation and distribution expenses	30,432	1.3	30,045	(6.5)	32,123
Petrochemical expenses	12,463	3.2	12,075	(0.05)	12,081
Other operating expenses	47,346	4.6	45,261	(14.5)	52,937
Total operating expenses	457,710	(1.5)	464,467	1.7	456,765

(1) Excluding extraction expenses at the West Qurna-2 field.

The method of allocation of operating expenses above differs from the approach used in preparing data for Note 33 “*Segment information*” to our audited consolidated financial statements included elsewhere in this prospectus. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs and do not include adjustments related to elimination of intra-group service margin. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

Hydrocarbon extraction expenses

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

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Hydrocarbon extraction expenses ⁽¹⁾	193,857	(1.2)	196,227	1.8	192,781
- in Russia.....	170,590	(2.6)	175,131	(1.4)	177,554
- outside Russia ⁽¹⁾	23,267	10.3	21,096	38.5	15,227
	<i>(rubles per boe, except %)</i>				
Hydrocarbon extraction expenses ⁽¹⁾	232	(2.5)	238	(2.5)	244
- in Russia.....	237	(2.7)	244	(1.6)	248
- outside Russia ⁽¹⁾	200	0.3	199	(2.5)	204
	<i>(U.S. dollars per boe, except %)</i>				
Hydrocarbon extraction expenses ⁽¹⁾	3.59	(5.9)	3.81	(8.9)	4.18

- in Russia	3.67	(6.0)	3.90	(8.2)	4.25
- outside Russia ⁽¹⁾	3.09	(2.1)	3.16	(9.7)	3.50

(1) Excluding expenses at the West Qurna-2 field.

2019 vs. 2018

In Russia, our hydrocarbon extraction expenses decreased by RUB 5 billion, or by 2.6%, compared to 2018. The decrease in hydrocarbon extraction expenses was due to a decrease in costs of workover operations and overhauls that was partially offset by higher electricity costs. The decrease in our hydrocarbon extraction expenses was also driven by the adoption of IFRS 16. In 2019, our domestic per BOE hydrocarbon extraction expenses decreased by 2.7%, compared to 2018.

In 2019, outside Russia, our hydrocarbon extraction expenses increased by RUB 2 billion, or by 10.3%, as a result of substantial gas production growth in Uzbekistan and Azerbaijan, maintenance works in Kazakhstan, as well as the ruble devaluation. Despite the ruble devaluation, our per BOE hydrocarbon extraction expenses outside Russia did not change significantly, compared to 2018, due to an increase in gas share in our production structure.

2018 vs. 2017

In 2018, our hydrocarbon extraction expenses increased by RUB 3 billion, or by 1.8%, compared to 2017.

In Russia, our extraction expenses decreased by 1.4%, due to a decrease in consumption of energy, completion of commissioning of the first stage of the V. Filanovsky field in 2017, as well as cost efficiency measures implemented by our production entities. Our domestic per BOE hydrocarbon extraction expenses decreased by 1.6% compared to 2017.

Outside Russia, our hydrocarbon extraction expenses increased by 38.5%, compared to 2017, as a result of an increase in expenses on gas production due to substantial production volumes growth within Gissar and Kandym projects in Uzbekistan, as well as the ruble devaluation. At the same time, as a result of higher share of gas in our international hydrocarbon production, our per BOE hydrocarbon extraction expenses outside Russia decreased by 2.5% in 2018. This positive dynamic in our per BOE hydrocarbon extraction expenses outside Russia was constrained by a decrease in our share in profit crude oil at the Karachaganak project in Kazakhstan.

Own refining expense

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Refining expenses at the Group refineries	96,543	(8.0)	104,987	21.4	86,508
- in Russia	42,555	(6.8)	45,659	11.4	40,970
- outside Russia	53,988	(9.0)	59,328	30.3	45,538
	<i>(rubles per tonne, except %)</i>				
Refining expenses at the Group refineries	1,404	(10.0)	1,560	21.2	1,287
- in Russia	964	(8.8)	1,057	11.3	950
- outside Russia	2,195	(10.7)	2,459	30.3	1,887

2019 vs. 2018

In 2019, our own refining expenses decreased by RUB 8 billion, or by 8.0%, compared to 2018.

Refining expenses at our domestic refineries decreased by RUB 3 billion, or by 6.8%, compared to 2018, mainly due to a decrease in consumption of purchased additives in gasoline production, despite higher throughput volumes. Outside Russia, our expenses decreased by RUB 5 billion, or by 9.0%, compared to 2018, due to a decline in fuel, electricity and maintenance costs. The decrease in expenses at our refineries outside Russia was partially offset by higher throughput volumes.

2018 vs. 2017

In 2018, our own refining expenses increased by RUB 18 billion, or by 21.4%, compared to 2017.

Refining expenses at our domestic refineries increased primarily due to an increase in consumption of purchased additives for gasoline production due to major maintenance works at some of our conversion units and growth in share of higher-octane gasoline in overall gasoline output volumes. Refining expenses at our refineries outside Russia increased largely due to an increase in energy costs and the depreciation of the ruble in comparison to the euro.

Refining expenses at third-party refineries

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

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

In August 2019, the agreement was extended until 2022 with a modification of certain provisions. As a result, starting from September 2019, the agreement is treated as a financing arrangement in which we recognise only interest on financing provided and administrative fee in the profit or loss statement. Thus, we have not recognised the tolling fee since September 2019.

2019 vs. 2018

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

2018 vs. 2017

In 2018, a tolling fee amounted to RUB 7.4 billion, compared to RUB 14.7 billion in 2017. This decrease was due to lower refining margin in 2018.

Expenses for crude oil transportation to refineries

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

2019 vs. 2018

In 2019, our expenses for crude oil transportation to refineries increased by RUB 2.6 billion, or by 5.2%, compared to 2018, mainly due to an increase in volumes of supplies of own crude oil and tariffs.

2018 vs. 2017

In 2018, our expenses for crude oil transportation to refineries increased by RUB 1.5 billion, or by 3.1%, compared to 2017. The increase was due to the increase in transportation tariffs and changes in delivery terms of crude oil supplies to our refineries outside Russia.

Power generation and distribution expenses

2019 vs. 2018

In 2019, compared to 2018, power generation and distribution expenses increased by 1.3%.

2018 vs. 2017

In 2018, compared to 2017, power generation and distribution expenses decreased by 6.5%, mainly due to the sale of an energy distribution subsidiary in Russia in the fourth quarter of 2017.

Petrochemical expenses

2019 vs. 2018

In 2019, our petrochemical expenses increased by RUB 388 million, or by 3.2%, compared to 2018. The increase was due to increased production volumes in 2019 against the background of a suspension of production at the petrochemical facilities at our Bulgarian refinery in 2018.

2018 vs. 2017

In 2018, our petrochemical expenses did not change significantly as compared to 2017.

Other operating expenses

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely rendering of transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

2019 vs. 2018

In 2019, other operating expenses increased by RUB 2 billion, or by 4.6%, compared to 2018.

2018 vs. 2017

In 2018, other operating expenses decreased by RUB 8 billion, or by 14.5%, compared to 2017. The decrease was mostly a result of the sale of our diamond business in June 2017.

Cost of purchased crude oil, gas and products

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

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Cost of purchased crude oil in Russia	18,123	(15.5)	21,458	27.0	16,896
Cost of purchased crude oil outside Russia	2,229,352	0.7	2,213,464	68.4	1,314,764
Compensation crude oil related to West Qurna-2 project	36,225	(31.4)	52,817	59.1	33,191
Cost of purchased crude oil	2,283,700	(0.2)	2,287,739	67.6	1,364,851
Cost of purchased refined products in Russia	37,146	(26.0)	50,176	(0.4)	50,392
Cost of purchased refined products outside Russia	1,930,711	(6.6)	2,067,726	24.6	1,659,961
Cost of purchased refined products	1,967,857	(7.1)	2,117,902	23.8	1,710,353
Other purchases	82,157	34.9	60,898	46.3	41,635
Net loss/ (gain) from hedging of trading operations	61,333	-	(21,908)	-	15,909
Change in crude oil and petroleum products inventory	(86,974)	-	89,613	-	(2,884)
Total cost of purchased crude oil, gas and products	4,308,073	(5.0)	4,534,244	44.9	3,129,864

2019 vs. 2018

Compared to 2018, the cost of purchased crude oil, gas and products decreased by RUB 226 billion, or by 5.0%, largely as a result of a decrease in hydrocarbon prices.

2018 vs. 2017

In 2018, the cost of purchased crude oil, gas and products increased by RUB 1,404 billion, or by 44.9%, compared to 2017. The increase was largely due to the increase in hydrocarbon prices as well as an increase in the crude oil trading volume. The increase was also due to the depreciation of the ruble in comparison to the U.S. dollar.

Transportation expenses

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				

		<i>(millions of rubles, except %)</i>			
Crude oil transportation expenses	98,406	2.6	95,913	(1.4)	97,247
in Russia.....	46,946	0.1	46,881	0.7	46,552
outside Russia.....	51,460	5.0	49,032	(3.3)	50,695
Refined products transportation expenses.....	162,648	1.0	160,972	1.8	158,196
in Russia.....	89,842	(0.5)	90,293	2.1	88,455
outside Russia.....	72,806	3.0	70,679	1.3	69,741
Other transportation expenses	17,744	33.7	13,268	(23.5)	17,349
in Russia.....	2,200	(18.4)	2,696	(56.6)	6,211
outside Russia.....	15,544	47.0	10,572	(5.1)	11,138
Total transportation expenses	278,798	3.2	270,153	(1.0)	272,792

2019 vs. 2018

In 2019, our expenses for transportation of crude oil increased by RUB 2 billion, or by 2.6%, compared to 2018. Our expenses for transportation of refined products increased by RUB 2 billion, or by 1.0%, compared to 2018. Outside Russia, our expenses increased mainly as a result of the ruble devaluation and higher freight rates, which was partially offset by the effect of IFRS 16 adoption. In Russia, our transportation expenses did not change significantly. Indexation of tariffs and an increase in export sales volumes were offset by a decrease in domestic sales volumes and the effect of IFRS 16 adoption.

The dynamics of other transportation expenses outside Russia compared to 2018 were affected by one-off adjustments during the fourth quarter of 2018 related to the Group's PSA projects in Uzbekistan.

2018 vs. 2017

In 2018, our transportation expenses decreased by RUB 3 billion, or by 1% compared to 2017.

In 2018, our expenses for transportation of crude oil decreased by RUB 1 billion, or by 1.4%, compared to 2017. Outside Russia, the decrease was due to a decline in freight rates and changes in delivery terms, which was partially offset by an increase in sales volume and the depreciation of the ruble in comparison to the U.S. dollar. In Russia, the decrease was due to changes in the direction of supplies. The decrease was offset by an increase in tariffs and an increase in sales volume.

In 2018, our expenses for transportation of refined products increased by RUB 3 billion, or by 1.8%, compared to 2017. Outside Russia, transportation expenses increased due to the depreciation of the ruble in comparison to the U.S. dollar, which was offset by a decrease in sales volume. In Russia, transportation expenses increased due to an increase in tariffs.

The dynamics of other transportation expenses compared to 2018 were affected by the sale of one of our energy distribution subsidiaries in Russia in the fourth quarter of 2017.

Selling, general and administrative expenses

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

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Labour costs included in selling, general and administrative expenses	68,380	8.6	62,959	6.5	59,120
Other selling, general and administrative expenses	88,086	(11.1)	99,123	0.2	98,937
Increase in liability related to share-based compensation program	31,366	0.2	31,300	2,658	1,135
Expenses (income) on allowance for expected credit losses	9,340	-	(949)	-	6,139
Total selling, general and administrative expenses	197,172	2.5	192,433	16.4	165,331

2019 vs. 2018

In 2019, our total selling, general and administrative expenses increased by RUB 5 billion, or by 2.5%, compared to 2018. The increase was mainly as a result of changes in allowance for expected credit losses. Our labour costs increased due to salary indexation and bonus payments.

Other selling, general and administrative expenses decreased by RUB 11 billion compared to 2018, mainly due to the effect of IFRS 16 adoption.

2018 vs. 2017

In 2018, our total selling, general and administrative expenses increased by RUB 27 billion, or by 16.4%, compared to 2017. In 2018, the Group's non-cash expenses under the compensation plan announced in December 2017 and described below amounted to RUB 31.3 billion.

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

Depreciation, depletion and amortisation

2019 vs. 2018

In 2019, our depreciation, depletion and amortisation expenses increased by RUB 72 billion, or by 21.0%, compared to 2018. The increase in depreciation, depletion and amortisation expenses was largely due to the amortisation of our right-of-use assets in the amount of RUB 33.0 billion under the newly adopted IFRS 16. The increase was also due to higher gas production volumes from our launching new production facilities as part of the Kandym project in Uzbekistan, which increased our depletion expenses.

2018 vs. 2017

In 2018, our depreciation, depletion and amortisation expenses increased by RUB 18 billion, or by 5.5%, compared to 2017. The increase was due to the completion of commissioning of the first stage of the V. Filanovsky field in 2017 and commencement of related assets depletion. The increase was also due to an increase in gas production volumes as a result of launching new production facilities as part of the Gissar and Kandym project in Uzbekistan.

Equity share in income of affiliates

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

2019 vs. 2018

In 2019, our share in income of affiliates decreased by RUB 7 billion, or by 27.7%, compared to 2018. The decrease was mainly due to the partial impairment of fixed assets in our upstream affiliates.

2018 vs. 2017

Our share in income of affiliates increased by RUB 8 billion, or by 49.7%, compared to 2017. The increase was largely due to an increase in income of Tengizchevroil.

Taxes other than income taxes

The following table sets forth our taxes other than income tax expenses in Russia and internationally for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
In Russia					
Mineral extraction taxes.....	849,445	1.5	836,820	53.7	544,586
Tax on additional income.....	16,229	-	-	-	-
Social security taxes and contributions	27,308	3.0	26,506	(9.2)	29,178
Property tax	22,663	(6.6)	24,273	19.5	20,308
Other taxes.....	2,515	21.9	2,063	(31.2)	2,998
Total in Russia	918,160	3.2	889,662	49.0	597,070
International					
Mineral extraction taxes.....	22	-	-	-	-
Social security taxes and contributions	6,109	1.4	6,025	(3.0)	6,210
Property tax	906	0.2	904	(0.7)	910
Other taxes.....	2,993	7.2	2,792	20.3	2,320
Total internationally	10,030	3.2	9,721	3.0	9,440
Total taxes other than income taxes	928,190	3.2	899,383	48.3	606,510

2019 vs. 2018

In 2019, our taxes other than income taxes increased by RUB 29 billion, or by 3.2%, compared to 2018. This increase was largely driven by an increase in mineral extraction tax expense in Russia on the back of an increase in the average applicable mineral extraction tax rate of 4.6%, as well as an application of a new tax on additional income from hydrocarbon production.

2018 vs. 2017

Our taxes other than income taxes increased by RUB 293 billion, or by 48.3%, compared to 2017. The increase was largely due to an increase in the mineral extraction tax rate in Russia, resulting from an increase in crude oil prices.

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

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
Decrease in extraction taxes from application of reduced and zero rates for crude oil production.....	127,018	(4.7)	133,300	76.1	75,714
Volume of crude oil production subject to:					
zero rates (ultra high viscosity).....	2,157	32.3	1,630	50.6	1,082
reduced rates (tax holidays for specific regions and high viscosity oil)	4,221	(25.6)	5,672	3.8	5,465
reduced rates (low permeability deposits).....	1,422	175.0	517	50.7	343
reduced rates (Tyumen deposits)	725	(13.2)	835	3.0	811
reduced rates (depleted fields)	19,050	21.9	15,631	8.4	14,420
reduced rates (other)	2,503	8.4	2,310	6.3	2,173
Total volume of production subject to reduced or zero rates	30,078	13.1	26,595	9.5	24,294

From 1 January 2019, the Group has applied a special tax regime at certain licence areas with reduced mineral extraction tax for crude oil and gas condensate along with newly-implemented TAI. In 2019, the total volume of crude oil and gas condensate production subject to TAI amounted to 4,948 thousand tonnes. The mineral extraction tax on crude oil and gas condensate produced at the licence areas subject to TAI totalled RUB 25,429 million.

We also apply a special tax regime for offshore crude oil production at certain fields and deposits. In 2019, volumes of production subject to such regimes amounted to 6,436 thousand tonnes (compared to 6,074 thousand tonnes in 2018 and 4,584 thousand tonnes in 2017).

Excise and export tariffs

The following table sets forth our excise and export tariffs expenses in Russia and internationally for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
In Russia					
Excise tax on refined products	140,659	24.0	113,479	(4.8)	119,152
Excise tax on oil feedstock (excluding damper).....	(31,212)	-	-	-	-
Damper	(57,237)	-	-	-	-
Crude oil export tariffs.....	141,622	(30.3)	203,310	48.0	137,379
Refined products export tariffs.....	46,058	(16.9)	55,453	34.1	41,367
Total in Russia	239,890	(35.6)	372,242	25.0	297,898
International					
Excise and sales taxes on refined products.....	186,078	1.0	184,249	12.9	163,162
Crude oil export tariffs.....	51	45.7	35	(73.9)	134
Refined products export and import tariffs, net.....	(256)	(185.0)	301	(9.1)	331
Total internationally	185,873	0.7	184,585	12.8	163,627
Total excise and export tariffs.....	425,763	(23.5)	556,827	20.6	461,525

2019 vs. 2018

In 2019, crude oil export tariffs in Russia decreased compared to 2018. The decrease was mainly due to a decrease of 24.7% in the export duty rate, as well as an increased share of our crude oil exports coming from fields with special export duty rates. Refined products export tariffs also decreased in 2019 as a result of lower export duty rates, despite higher volumes of refined products exports.

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

The negative values of international refined products export and import tariffs in 2019 are a result of the compensation of import tariffs in the United States.

2018 vs. 2017

In 2018, total export tariffs increased by RUB 80 billion, or by 44.6%, compared to 2017. The increase was mainly due to an increase in export duty rates. In Russia, the excise tax expenses decreased due to a decrease in excise tax rates from 1 June 2018. Outside of Russia, the excise tax expenses increased as a result of the depreciation of the ruble in comparison to the euro. The increase was also due to an increase of sales volumes subject to the excise tax and increased excise tax rates in certain countries.

Exploration expenses

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

Foreign exchange gain (loss)

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

2019 vs. 2018

In 2019, foreign exchange gain amounted to RUB 0.9 billion. Implementation of IFRS 16 resulted in a foreign exchange gain of RUB 7.9 billion in 2019, which was offset by foreign exchange loss due to the effect of ruble appreciation.

2018 vs. 2017

As a result of the ruble devaluation in 2018, foreign exchange gains amounted to RUB 34 billion, compared to a foreign exchange loss of RUB 20 billion in 2017.

Other income (expenses)

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

2019 vs. 2018

In 2019, other expenses amounted to RUB 27.7 billion.

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

2018 vs. 2017

In 2018, other expenses amounted to RUB 38.9 billion.

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

In 2017 we recognised an impairment loss of RUB 31.4 billion. In 2017, we recognised an impairment loss for our exploration and production assets in Russia in the amount of RUB 20.9 billion and for our refining, marketing and distribution assets in Russia in the amount of RUB 2.2 billion.

In 2017, we recognised an impairment reversal in the amount of RUB 22.2 billion, which was a result of improvement of economic parameters of some of our production projects in West Siberia and European Russia.

In 2017, we recognised a gain before income tax from sale of our diamond business in the amount of RUB 48 billion (RUB 38 billion after income tax). Moreover, in 2017, we received \$74 million (RUB 4.3 billion) as a repayment of previously impaired receivable related to our international upstream project.

Income taxes

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

2019 vs. 2018

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

2018 vs. 2017

In 2018, our total income tax expense increased by RUB 48 billion, or by 46.4%, compared to 2017. Our profit before income tax increased by RUB 249 billion, or by 47.5%, compared to 2017. In 2018, our effective income tax rate was 19.7%, compared to 19.8% in 2017.

Liquidity and Capital Resources

We have historically satisfied our financing needs with cash generated from our operations, through short-term and long-term bank borrowings and by issuing debt securities. We expect our future liquidity needs to arise principally from financing our capital expenditures, working capital, payment of dividends in accordance with our dividend policy and repayment of maturing debt, as well as payments to shareholders in connection with our current share buy-back programme, which we announced in October 2019 for an aggregate amount of up to \$3 billion, as well as potential future acquisitions. Previously, in August 2018, we announced our first share buy-back programme for an aggregate amount of up to \$3 billion, which was completed in September 2019.

See “Additional Information Regarding the Company—Equity—Share Buy-backs and Cancellations” and “—Dividends and Dividend Policy”. We expect our capital expenditures in 2020 to be approximately RUB 550 billion, calculated using a ruble to U.S. dollar exchange rate of RUB 65.00 to US\$1.00 (excluding the West Qurna-2 project), and which may change depending on foreign currency exchange rates and any measures we can take to optimise our investment programme. We believe that our future cash flows from operations, borrowing capacity and funds raised from our debt offerings will be sufficient to fund our planned capital expenditures and investments, debt maturities and working capital requirements through 2020.

The following table sets forth information regarding our cash and cash equivalents for the periods indicated.

	At 31 December		
	2019	2018	2017
	<i>(millions of rubles)</i>		
Cash held in RUB	189,055	201,073	70,611
Cash held in US\$	303,046	264,538	239,405
Cash held in EUR	14,909	18,350	13,490
Cash held in other currencies	9,022	8,689	6,884
Total cash and cash equivalents.....	516,032	492,650	330,390

The following table shows our cash flows for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
Net cash provided by operating activities	1,151,844	14.4	1,006,651	32.7	758,490
including increase in working capital ⁽¹⁾	(6,781)	(79.8)	(33,592)	34.5	(24,983)
Net cash used in investing activities	(510,126)	21.3	(420,392)	(3.0)	(433,286)
Net cash used in financing activities	(582,344)	24.3	(468,549)	89.4	(247,395)

(1) Working capital is changes in operating assets and liabilities, as set out in our consolidated financial statements.

The following table shows our changes in operating assets and liabilities for the periods indicated.

	Year ended 31 December				
	2019	% Change	2018	% Change	2017
	<i>(millions of rubles, except %)</i>				
(Increase) decrease in accounts receivable.....	(48,023)	-	23,877	-	(84,055)
(Increase) decrease in inventory.....	(69,171)	-	71,565	-	(9,350)
Increase (decrease) in accounts payable.....	88,977	-	(92,508)	-	27,720
Increase (decrease) in net taxes other than on income payable	24,053	-	(8,460)	-	21,538
Change in other current assets and liabilities	(2,617)	(90.7)	(28,066)	-	19,164
Total increase in working capital.....	(6,781)	(79.8)	(33,592)	34.5	(24,983)

Operating Activities

Our primary source of cash flow is funds generated from our operations.

2019 vs. 2018

In 2019, cash generated from operations increased by 14.4% compared to 2018, due to higher profitability from our core operations and changes in working capital.

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

2018 vs. 2017

In 2018, cash generated from operations increased by RUB 248 billion, or by 32.7%, compared to 2017. The increase was due to an increase in profitability of our core operations.

Investing Activities

The following table sets forth our capital expenditures for the periods indicated.

	Year ended 31 December				
	2019	%	2018	%	2017
		Change		Change	
	<i>(millions of rubles)</i>				
Capital expenditures					
Exploration and production					
West Siberia	141,266	9.5	129,050	(2.4)	132,170
Timan-Pechora	66,808	(4.2)	69,770	(9.5)	77,079
Ural region	37,243	5.3	35,374	12.5	31,449
Volga region	43,798	(18.1)	53,481	(12.1)	60,832
Other in Russia	10,778	(5.7)	11,429	(18.0)	13,944
Total in Russia	299,893	0.3	299,104	(5.2)	315,474
Iraq	22,833	21.1	18,849	18.0	15,978
Other outside Russia	42,214	(8.0)	45,903	(59.1)	112,182
Total outside Russia	65,047	0.5	64,752	(49.5)	128,160
Total exploration and production	364,940	0.3	363,856	(18.0)	443,634
Refining, marketing and distribution					
Russia	62,740	(4.0)	65,326	29.9	50,293
- refining	39,912	(10.6)	44,621	76.9	25,220
- retail	4,189	(43.6)	7,433	(30.4)	10,677
- other	18,639	40.4	13,272	(7.8)	14,396
International	18,400	(1.2)	18,616	15.4	16,134
- refining	12,327	(0.4)	12,381	25.8	9,840
- retail	4,318	2.3	4,222	(23.1)	5,490
- other	1,755	(12.8)	2,013	150.4	804
Total refining, marketing and distribution	81,140	(3.3)	83,942	26.4	66,427
Corporate and other	3,895	4.5	3,728	159.8	1,435
Total capital expenditures	449,975	(0.3)	451,526	(11.7)	511,496

The table below presents our exploration and production capital expenditures in new production regions for the periods indicated.

	Year ended 31 December				
	2019	%	2018	%	2017
		Change		Change	
	<i>(millions of rubles, except %)</i>				
West Siberia (Yamal)	21,383	(2.8)	22,007	40.0	15,723
Caspian region (Projects in Russia)	36,362	(24.1)	47,913	(14.3)	55,932
Timan-Pechora (Yaregkoye field)	7,756	(24.7)	10,304	(30.2)	14,764
Iraq (West Qurna-2 project)	19,967	22.0	16,366	15.4	14,184
Iraq (Block-10)	2,866	15.4	2,483	38.4	1,794
Uzbekistan	11,605	(44.6)	20,932	(75.1)	84,025
Total	99,939	(16.7)	120,005	(35.6)	186,422

2019 vs. 2018

In 2019, the amount of cash used in investing activities increased by 21.3% compared to 2018. The increase in cash used in investing activities was largely due to our acquisitions in the Republic of Congo and the UAE. For more information on these acquisitions, see “—Changes in the Group Structure”.

In 2019, our capital expenditures did not change significantly compared to 2018.

In 2019, our domestic capital expenditures in the exploration and production segment were affected by the completion of the next stages of development works at the Yu. Korchagin and V. Filanovsky fields in the Caspian Sea. Higher capital expenditures in West Siberia were a result of an increase in production drilling footage.

The decrease in our domestic capital expenditures in the refining, marketing and distribution segment in 2019 was due to prepayments in 2018 related to the commencement of construction of a delayed coker complex at Nizhny Novgorod refinery.

The adoption of IFRS 16 resulted in a decrease in capital expenditures by RUB 9.5 billion, which decreased our cash used in investing activities in 2019.

2018 vs. 2017

In 2018, the amount of cash used in investing activities decreased by RUB 13 billion, or by 3.0%, compared to 2017. The decrease was due to a decrease in capital expenditures in 2018. The dynamics of our cash flows from investing activities was also affected by the sale of our diamond business in the amount of RUB 81 billion in the second quarter of 2017.

In 2018, our capital expenditures decreased by RUB 60 billion, or by 11.7%, compared to 2017.

In 2018, our capital expenditures in the exploration and production segment decreased by RUB 80 billion, or by 18.0%, compared to 2017. The decrease was mainly due to lower spending in Uzbekistan after completion of main construction works as part of the Gissar and Kandym projects. An increase in capital expenditures in our refining, marketing and distribution segment compared to 2017 was primarily due to commencement of construction works at Nizhny Novgorod refinery. The dynamics of our international capital expenditures was also affected by the depreciation of the ruble in comparison to other currencies.

Financing Activities

2019 vs. 2018

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

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

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

On 20 August 2019, we announced the completion of the buy-back programme. From its start and also taking into account a tender offer, 56.7 million common shares and depositary receipts of LUKOIL were purchased in aggregate.

See Note 19 “*Long-term debt*” to our consolidated financial statements for 2019 included elsewhere in this prospectus for information about our indebtedness.

2018 vs. 2017

In 2018, net movements of short-term and long-term debt generated an outflow of RUB 208 billion, compared to an outflow of RUB 58 billion in 2017.

In relation to the aforementioned buy-back programme, a Group company bought 12.7 million of common shares of LUKOIL for RUB 62,916 million in the second half of 2018.

Off Balance Sheet Arrangements

We are engaged in ongoing capital projects with respect to exploration and development, production, transportation and refining. As of 31 December 2019, the capital commitments of the Group relating to construction and acquisition of property, plant and equipment totalled RUB 518.0 billion. Of this amount, RUB 106.5 billion relates to capital commitments under production sharing agreements and other upstream projects outside Russia, RUB 12.6 billion represents capital commitments in our refining, marketing and distribution segment outside Russia, and capital commitments in Russia amounted to RUB 398.9 billion. We disclose these capital commitments, as well as our lease obligations set out below, as off balance sheet items.

Contractual Obligations

The following table displays the breakdown of our total contractual obligations as of 31 December 2019 with respect to our short-term debt and long-term debt, as well as our lease obligations (excluding future interest on loans).

<i>(millions of rubles)</i>	Total	2020	2021	2022	2023	2024	After
On balance sheet							
Short-term debt.....	16,162	16,162	-	-	-	-	-

Long-term bank loans and borrowings	117,864	24,294	22,177	17,092	12,943	12,881	28,477
6.125% Non-convertible U.S. dollar bonds, maturing 2020 ...	61,866	61,866	-	-	-	-	-
6.656% Non-convertible U.S. dollar bonds, maturing 2022 ...	30,905	-	-	30,905	-	-	-
4.563% Non-convertible U.S. dollar bonds, maturing 2023 ...	92,769	-	-	-	92,769	-	-
4,750% Non-convertible U.S. dollar bonds, maturing 2026 ...	61,786	-	-	-	-	-	61,786
Lease obligation ¹	171,880	27,978	21,977	13,417	13,335	13,543	81,630
Total on balance sheet	553,232	130,300	44,154	61,414	119,047	26,424	171,893

(1) Discounted amounts. For undiscounted cash flows, see Note 36 “*Capital and Risk Management*” to our consolidated financial statements for 2019 included elsewhere in this prospectus.

For more information on our short-term debt, see Note 18 “*Short-term borrowings and current portion of long-term debt*” to our consolidated financial statements for 2019 included elsewhere in this prospectus.

The weighted-average interest rate on long-term loans and borrowings from third parties was 4.08% per annum as of 31 December 2019. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. As of 31 December 2019, approximately 48% of total long-term loans and borrowings from third parties are secured by shares of an associated company, export sales and property, plant and equipment. For more information on our long-term loans and borrowings, please see Note 19 “*Long-term debt*” to our consolidated financial statements for 2019 included elsewhere in this prospectus.

For more information about our lease obligations, see Note 28 “*Lease*” to our consolidated financial statements for 2019 included elsewhere in this prospectus.

Non-IFRS Items Reconciliation

Reconciliation of profit for the year attributable to PJSC “LUKOIL” shareholders to adjusted EBITDA⁽¹⁾

	Year ended 31 December		
	2019	2018	2017
	<i>(millions of rubles)</i>		
Profit for the year attributable to PJSC “LUKOIL” shareholders	640,178	619,174	418,805
Add back/(subtract)			
Profit for the year attributable to non-controlling interests.....	2,043	1,928	1,617
Income tax expense.....	151,133	151,917	103,762
Financial income.....	(25,134)	(19,530)	(15,151)
Financial costs.....	44,356	38,298	27,331
Foreign exchange (gain) loss.....	(923)	(33,763)	19,948
Equity share in income of affiliates.....	(18,246)	(25,243)	(16,864)
Other expenses (income).....	27,691	38,934	(32,932)
Depreciation, depletion and amortisation	415,094	343,085	325,054
Adjusted EBITDA.....	1,236,192	1,114,800	831,570

(1) Adjusted EBITDA is a non-IFRS financial measure. See “*Presentation of Financial and Other Information—Non-IFRS Financial Measures (Unaudited)*” for more information.

Reconciliation of cash provided by operating activities to free cash flow and to free cash flow before changes in working capital⁽¹⁾

	Year ended 31 December		
	2019	2018	2017
	<i>(millions of rubles)</i>		
Net cash provided by operating activities.....	1,151,844	1,006,651	758,490
Capital expenditures.....	(449,975)	(451,526)	(511,496)
Free cash flow	701,869	555,125	246,994
Add back/(subtract)			
Changes in operating assets and liabilities:			
Trade accounts receivable.....	(48,023)	23,877	(84,055)
Inventories	(69,171)	71,565	(9,350)
Accounts payable.....	88,977	(92,508)	27,720
Other taxes	24,053	(8,460)	21,538
Other current assets and liabilities.....	(2,617)	(28,066)	19,164
Free cash flow before changes in working capital	708,650	588,717	271,977

(1) Free cash flow and free cash flow before changes in working capital are non-IFRS financial measures. See “*Presentation of Financial and Other Information—Non-IFRS Financial Measures (Unaudited)*” for more information.

Quantitative and Qualitative Disclosures about Market Risks

Interest Rate Risk

We are exposed to changes in interest rates, primarily associated with our variable rate short-term and long-term borrowings. We do not utilise any interest rate swaps or other derivatives to hedge against the risk of changes in interest rates on our variable rate debt. To mitigate this risk, we monitor market conditions, take measures to improve our debt structure by balancing fixed and variable interest rates, control the need for additional debt financing and refinancing and extend the term of our debt obligations. For information on our material long-term borrowings, please refer to Note 19 “*Long-term debt*” to our audited annual consolidated financial statements included elsewhere in this prospectus.

Utilising the actual interest rates in effect and the balance of our variable rate debt as of 31 December 2019, and assuming a 100 basis point change in interest rates and no change in the balance of debt outstanding, the potential effect on our annual interest expense would not be material to our results of operations. See Note 36 “*Capital and risk management*” to our consolidated financial statements for 2019 included elsewhere in this prospectus for more information about interest rate risk.

Foreign Currency Risk

The countries in which our principal operations are located have been subject to hyperinflation, and during the last 10 years, the local currencies have been subject to large devaluations. As a result, we are subject to the risk that the local currencies may suffer future devaluation that may subject us to losses, depending on our net monetary position. Because we have operations in a number of countries, we are required to conduct business in a variety of foreign currencies and, as a result, we are subject to foreign exchange rate risk on cash flows related to sales, expenses, financing and investment transactions. The impacts of fluctuations in foreign currency exchange rates on our geographically diverse operations are varied.

The exchange rate of the ruble to the U.S. dollar produces the greatest impact on our transaction results, since a substantial part of our revenue is either denominated in U.S. dollars or is correlated to some extent with U.S. dollar crude oil prices, while most of our costs are incurred in Russia and are denominated in rubles. Therefore, a devaluation of the ruble against the U.S. dollar generally causes our revenues to increase in ruble terms, and vice versa. We recognised net foreign exchange gain of RUB 0.9 billion in 2019, RUB 33.8 billion in 2018 and a net foreign exchange loss of RUB 19.9 billion in 2017.

We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign currency exchange rate exposures.

See Note 36 “*Capital and risk management*” to our consolidated financial statements for 2019 included elsewhere in this prospectus for more information about foreign currency risk, including a sensitivity analysis showing the impact of a strengthening or weakening of the main currencies used in the Group’s operations (the ruble, U.S. dollar and euro) as of 31 December 2019 and 2018, as well as the carrying amounts of the Group’s assets and liabilities denominated in foreign currencies as of 31 December 2019 and 2018.

Commodity Derivative Instruments

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

The fair value of derivative contracts outstanding and recorded on the consolidated statement of financial position was a net liability of RUB 0.4 billion as of 31 December 2019 and a net asset of RUB 0.3 billion as of 31 December 2018 and a net liability of RUB 0.3 billion as of 31 December 2017. Financial results from commodity derivatives are included in the consolidated statement of profit or loss and other comprehensive income in “*Cost of purchased crude oil, gas and products*”. In 2019, we recognised a net loss of RUB 61.3 billion from hedging, compared to a net gain of RUB 21.9 billion in 2018 and a net loss of RUB 15.9 billion in 2017.

See Note 35 “*Fair value*” to our consolidated financial statements for 2019 included elsewhere in this prospectus for more information about our commodity derivative contracts.

Significant Accounting Policies and Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies, as well as to make estimates, judgements and assumptions, that affect the reported amounts of assets, liabilities, revenues and expenses. See Note 3 “*Summary of significant accounting policies*” and Note 4 “*Use of Estimates and Judgements*” to our consolidated financial statements for 2019 included elsewhere in this prospectus for descriptions of the Group’s major accounting policies and the related estimates and judgments. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used.

New Accounting Standards and Interpretations Not Yet Adopted

Certain new or amended accounting standards and interpretations were not yet effective as of 31 December 2019, and accordingly, were not applied in preparing our audited annual consolidated financial statements, included elsewhere in this prospectus. See Note 5 “*New standards and interpretations not yet adopted*” to our consolidated financial statements for 2019 included elsewhere in this prospectus for a description of the pronouncements that may impact our operations.

BUSINESS

Overview

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). We carry out geological exploration work in 10 countries and have proved hydrocarbon reserves in eight countries and production in seven countries. Most of our hydrocarbon reserves are conventional, which results in a low cost base for hydrocarbon reserve development and production. Furthermore, we have well-developed and diversified downstream assets located in Russia and abroad.

Our revenues and profit attributable to LUKOIL shareholders in 2019 were RUB 7,841 billion and RUB 640 billion, respectively, compared to RUB 8,036 billion and 619 billion in 2018, respectively.

As of 31 December 2019, as audited by Miller and Lents, our proved hydrocarbon reserves were 15,769 mmboe, including 12,015 mmbbls (1,639 million tonnes) of crude oil and 22,527 bcf (3,754 mmboe) of gas. As of the same date, our probable hydrocarbon reserves were 6,217 mmboe, including 4,671 mmbbls (637 million tonnes) of crude oil and 9,275 bcf (1,546 mmboe) of gas. For more information about these estimates, see "*Presentation of Reserves and Resources*".

We are involved in geological exploration activities in Russia, Iraq, Egypt, Mexico, Norway, Romania, Kazakhstan and the continental shelf of West Africa (Cameroon, Ghana and Nigeria).

We currently produce crude oil in Russia, Azerbaijan (gas condensate), Egypt, Iraq, Kazakhstan, Uzbekistan (gas condensate) and the Republic of Congo. In 2019, we produced (including our share in equity affiliates) 646.3 mmbbls (87.5 million tonnes) of crude oil, including 604.7 mmbbls (82.1 million tonnes) in Russia and 41.6 mmbbls (5.4 million tonnes) internationally. Our domestic crude oil production accounted for 14.6% of all Russian crude oil production for 2019, according to CDU TEK.

We currently produce gas in Russia, Azerbaijan, Kazakhstan, Uzbekistan and the Republic of Congo. In 2019, we produced (including our share in equity affiliates) 1,237.6 bcf (206.3 mmboe) of gas, including 628.5 bcf (104.8 mmboe) in Russia and 609.1 bcf (101.5 mmboe) internationally.

We own and operate oil refineries in Russia, Bulgaria, Italy and Romania, and we have a 45% interest in the Zeeland refinery in The Netherlands. In 2019, we refined 503.9 mmbbls (68.7 million tonnes) of hydrocarbon feedstock at our refineries, including 323.6 mmbbls (44.1 million tonnes) at our Russian refineries and 180.3 mmbbls (24.6 million tonnes) at our international refineries (including our share in the Zeeland refinery). We also refined 32.7 mmbbls (4.5 million tonnes) of crude oil under arrangements with international third-party refineries.

We are also involved in gas processing, petrochemical and power generation businesses in Russia and internationally.

In 2019, we sold 656.7 mmbbls (89.6 million tonnes) of crude oil and 123.3 million tonnes of refined and petrochemical products. Our volumes of international sales of crude oil and volumes of international sales of refined and petrochemical products accounted for 98.9% and 79.6% of our total sales volumes of crude oil and total sales volumes of refined and petrochemical products, respectively. A substantial part of our international sales relate to our global trading operations. In 2019, we acquired 557.9 mmbbls (76.1 million tonnes) of crude oil and 55.3 million tonnes of refined products and petrochemical products for refining, trading and marketing purposes.

As of 31 December 2019, we owned, leased and franchised 5,044 retail filling stations, including 2,469 in Russia. In 2019, we sold 9.9 million tonnes of refined products through our retail network in Russia and 4.2 million tonnes through our retail network outside Russia. We are also actively involved in end-customer sales of jet and bunker fuel and lubricants in Russia and internationally.

Russian Upstream Operations

As of 31 December 2019, 95.3% of our proved crude oil reserves and 73.0% of our proved gas reserves were located in Russia, with West Siberia representing 50.5% and 56.3% of our total proved crude oil and gas reserves, respectively. West Siberia is the core traditional region of our exploration and production activities in Russia. Among other important regions are Timan-Pechora, Volga (including the North Caspian area) and Ural.

In 2019, our operations in Russia accounted for 93.8% and 50.8% of our aggregate crude oil and gas production, respectively. Our subsidiaries and affiliates carry out hydrocarbon development at 469 fields in Russia.

In 2019, we started production at 13 new fields, including at offshore oil field D41 in the Baltic Sea and South-Messoyakhskoye gas condensate field in the Bolshekhetskaya depression in West Siberia.

Moreover, in 2019, we won a number of tenders for subsoil use licences, including licences located in new regions: the Republic of Bashkortostan, the Saratov region, and the Orenburg region.

In addition, in February 2019, we extended our reserve base by acquiring a 100% interest in LLC Yuzhno-Sardakovskoye which owns subsoil use licences for the Yuzhno-Sardakovsky and the Yanchinsky oil fields. As of 31 December 2019, these fields had proved crude oil reserves of 8.3 mmbbl (1.1 million tonnes) and probable crude oil reserves of 13.5 mmbbl (1.8 million tonnes). These fields are located in close proximity to LUKOIL-West Siberia's infrastructure.

In November 2019, we also acquired a 100% interest in LLC Talinskoye which owns a subsoil use licence for the Zapadno-Talinsky field in the Khanty-Mansiysk Autonomous District-Yugra. As of 31 December 2019, the field had proved crude oil reserves of 9.3 mmbbl (1.3 million tonnes) and probable crude oil reserves of 32.7 mmbbl (4.5 million tonnes). The oil field is located in close proximity to LUKOIL-West Siberia's infrastructure.

International Upstream Operations

As of 31 December 2019, our international upstream assets accounted for 4.7% and 27.0% of our proved crude oil and gas reserves, respectively, with Iraq and Kazakhstan representing 83.0% of our international crude oil reserves and Uzbekistan representing 67.7% of our international gas reserves. Most of our international exploration efforts in 2019 were concentrated at the Block-10 in Iraq, where we made a significant discovery in 2016.

In September 2019, we completed the acquisition of a 25% interest in the Marine XII project in the Republic of Congo from New Age M12 Holdings Limited. The Marine XII block covers five discovered fields across an area of 571 sq. km and is located on the continental shelf of the Republic of Congo, 30 km from the shore. Sea depth ranges from 20 to 90 metres in the area where the block is located. Other parties to the project are Eni (65%, operator) and the Société Nationale des Pétroles du Congo (10%).

In October 2019, we acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National Oil Company. The Concession covers the development of previously undeveloped deposits of gas, oil and gas condensate as part of nine shallow fields in the Arabian Gulf west of Abu Dhabi. Sea depth goes down to 24 metres in the area where the fields are located.

In 2019, our international upstream assets (including our share in equity affiliates) accounted for 6.2% and 49.2% of our crude oil and gas production, respectively.

Oil Refining

The total refining capacity of our refineries as of 31 December 2019 amounted to 609.9 mmbbls (83.2 million tonnes) per year, including 389.2 mmbbls (53.1 million tonnes) per year in Russia and 220.7 mmbbls (30.1 million tonnes) per year outside Russia (including our 45% interest in the Zeeland refinery).

In Russia, we own and operate four refineries, which are located in Perm, Volgograd, Ukhta and Kstovo (Nizhny Novgorod region), as well as two mini-refineries in West Siberia. The throughput at our Russian refineries was 323.6 mmbbls (44.1 million tonnes) in 2019. We have invested substantial capital to upgrade and expand our Russian refineries. In 2016, we successfully completed a major multi-year refinery modernisation programme within our expected timeframe and budget and, since then, have continued to work on selective projects in Russia to improve our product slate. In 2018, we started the construction of a delayed coker unit and an isomerisation unit at our refinery in Kstovo (Nizhny Novgorod). We are also building a deasphaltizing unit at our refinery in Volgograd to increase production volumes and expand product range of lubricants.

Outside Russia, we own and operate refineries in Bulgaria, Romania and Italy and also own a 45% stake in the Zeeland refinery in The Netherlands. The throughput at our international refineries was 180.3 mmbbls (24.6 million tonnes) in 2019.

Petrochemicals

We own two petrochemical plants in southern Russia (Stavrolen and Saratovorgsintez). We also produce petrochemicals at our Burgas refinery in Bulgaria and ISAB refinery in Italy.

In 2019, we started design works for constructing a polypropylene production complex at our refinery in Kstovo (Nizhny Novgorod). We also started design works for constructing a polypropylene production unit at our refinery in Bulgaria. Total combined output of chemicals from our petrochemical plants (excluding petrochemicals produced at our refineries) was 1.1 million tonnes in 2019, and our products were sold in Russia and exported to more than 30 countries.

Lubricants

We produce lubricants at eight of our own sites, within two joint ventures and at 25 contracted plants. In 2019, our total lubricant production (full cycle) and lubricant blending at all of our facilities was 963 thousand tonnes and 138 thousand tonnes, respectively. In 2019, we marketed lubricants and greases in over 100 countries.

In 2019, we launched a lubricants blending plant in Kazakhstan with a capacity of 100 thousand tonnes.

Gas Processing

In Russia, we own and operate five gas processing facilities: the Lokosovsky plant in West Siberia, the Korobkovsky plant in the Volgograd region, the Usinsk plant in Timan-Pechora, gas processing facilities at the Perm refinery in the Perm region and a gas processing unit at the Stavrolen oil and gas chemical complex in the Stavropol Territory. These gas processing facilities have a combined capacity of 240.5 bcf (40.1 mmbœ) of gas feedstock and 13.6 mmbœ (1.9 million tonnes) of natural gas liquids per year.

In 2019, our gas processing facilities processed 149.7 bcf (25.0 mmbœ) of gas feedstock and produced 0.5 million tonnes of natural gas liquids and 2.5 mmcm of dry gas.

Crude Oil and Refined Product Sales

Crude oil that is not processed at our Russian refineries is mainly exported. Our international sales in addition to exports from Russia include sales outside Russia of crude oil produced by our international projects, as well as sales of procured crude oil as part of our trading activity.

In 2019, we sold 6.9 mmbls (0.9 million tonnes) of crude oil in Russia, or 1.1% of our total crude oil sales, and 649.8 mmbls (88.7 million tonnes) of crude oil internationally, or 98.9% of our total crude oil sales. A substantial part of our international crude oil sales is represented by our trading activities.

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil, lubricants and petrochemicals. In 2019, we sold a total of 123.3 million tonnes of refined and petrochemical products through wholesale and retail channels, including 25.1 million tonnes, or 20.4%, in the domestic market, and 98.2 million tonnes, or 79.6%, internationally. A substantial part of our international refined products sales relates to our global trading operations. In 2019, we acquired 76.1 million tonnes of crude oil and 55.3 million tonnes of refined products and petrochemical products for refining, trading and marketing purposes.

Retail Marketing

As of 31 December 2019, we owned, leased and franchised 5,044 retail filling stations, consisting of 2,469 in Russia, 314 in the CIS (excluding Russia) and Georgia, 2,027 in Europe (including Balkan countries and Turkey) and 234 in the United States. The above total number of filling stations includes 1,083 multi-fuel filling stations (also selling LPG or compressed gas), consisting of 119 in Russian and 964 outside Russia. Most of the stations operate under the LUKOIL brand.

As part of our optimisation programme in relation to our retail business, in 2018, we completed a restructuring of the management system for our Russian filling station network by consolidating eight managing companies into four to improve control and cut costs.

In 2019, we sold 9.9 million tonnes of refined products through our retail network in Russia and 4.2 million tonnes through our retail network outside Russia.

Power Generation

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally.

As of 31 December 2019, our commercial power generation had installed electric capacity of 4.5 GW and installed heating capacity of 8.1 Gcal/hour. We also had on-site supporting electric power capacity of 1.9 GW. Our total commercial output of electrical energy was 18.3 billion kWh in 2019. We also produced 7.5 billion kWh at our on-site supporting facilities. Our total output of heat energy was approximately 10.1 million Gcal in 2019.

Other Operations

We divested our diamond business in May 2017 with the sale of our 100% interest in a company developing the Vladimir Grib diamond field in the Arkhangelsk region of Russia for the ruble equivalent of \$1.45 billion.

Competitive strengths

We believe the following competitive strengths support our sustainable development and differentiate us from our Russian and international peers:

Large conventional reserve base

As of 31 December 2019, our proved hydrocarbon reserves were 15.8 billion boe, ensuring reserve life of 18 years based on our annual production for 2019. Our subsidiaries and associates hold over 500 licences in Russia and participate in a number of upstream projects outside Russia. Most of our reserves and resources are attributed to the conventional category with approximately 51.9% of our reserves located in West Siberia, which is our core production region with well-developed infrastructure. The high concentration and conventional nature of our reserves enable us to achieve low development and lifting costs. We have a number of growth projects located in the West Siberia, North Caspian, Timan-Pechora and Perm regions, as well as outside Russia, including Iraq, Kazakhstan and Azerbaijan.

Sizable greenfields

We continue to expand commercial production at the offshore oil fields in the North Caspian, the Imilorskoye and Vinogradov tight oil fields in West Siberia and the Yaregskoye and Usinskoye oil fields, our largest heavy oil fields in Russia. The high productivity of these assets and tax incentives compensate for high capital expenditures and support the fast ramp-up of daily production rates.

Technological leadership and extensive offshore expertise

In our operations we apply modern technologies to achieve higher efficiency. We are drilling sophisticated wells at our fields and applying advanced enhanced oil recovery methods. We are actively involved in development of hard-to-recover oil reserves, which in some cases require unique technological solutions. We are pioneers in Russian offshore operations with a successful track record of safe and efficient work in the Baltic and Caspian Seas. We believe that our refining segment is one of the most advanced in Russia. In addition, we consider our technological expertise to be efficiently managed and developed by our specialised research and development institutes.

High resilience to low oil price environment

Progressive tax rates under the standard tax regime and correlation between the oil price and ruble to U.S. dollar exchange rate result in low sensitivity of our upstream margin in Russia to oil price fluctuations under the standard tax regime. This contributes to a high resilience of our Russian upstream operations to low oil price environment.

Modernised refineries

In 2016, we completed our major refinery modernisation programme that lasted more than five years. As a result, we enhanced our product slate in Russia, where we produce approximately two-thirds of our refined products. In 2018, we launched several selective projects to further enhance our product slate, including a construction of a delayed coker unit and isomerisation unit at our refinery in Nizhny Novgorod. We consider our refining portfolio to be among the best in Russia, which results in higher-than-average refining margins.

High level of vertical integration

We operate a full chain of vertically integrated businesses from exploration and production of crude oil and gas to marketing and distribution of petroleum and gas products to end consumers. More than three quarters of the oil that we produce is refined at our eight refineries in Russia and Europe. We sell approximately one-third of the refined products that we produce through our small wholesale channels and our retail network of more than 5,000 filling stations around the world, as well as through our aircraft and ship refuelling companies. The remaining two-thirds are primarily sold through our trading company LITASCO, which is active in over 90 countries. Our gas production business also benefits from the vertical integration with our gas processing and petrochemicals facilities, as well as our power generation and distribution facilities.

We also own substantial transportation infrastructure that enables us to deliver our crude oil, gas and petroleum products to markets more efficiently, preserving the original quality and saving on transportation expenses.

Our well-developed downstream segment helps us to enhance our profitability per barrel of production in the upstream segment and our resilience in the volatile macroeconomic environment.

Flexible investment programme

With a flexible investment programme, we can better maintain free cash flow generation and a solid financial position in difficult macroeconomic conditions without jeopardising our strategic targets and debt servicing. Due to a well-balanced asset portfolio, strict capital discipline and ruble devaluation, we have managed to generate positive free cash flow (net cash provided by operating activities less capital expenditures) in every year for the last five years despite high oil price volatility.

Solid financial position

We believe that we have established a solid financial track record and financial position. We have retained investment grade credit ratings since 2008, despite market turbulence and sovereign rating downgrades in Russia. Notwithstanding relatively low oil prices, our cash and cash equivalents amounted to RUB 516.0 billion as of 31 December 2019. Strict financial discipline, a strong balance sheet and low leverage relative to other global energy companies help to support sustainable development under various oil price scenarios.

Experienced management team

We have one of the most experienced executive management teams in the industry led by our founder and President, Vagit Alekperov. We were founded in 1992 by our key management and became the first vertically integrated oil company in post-Soviet Russia. Due to the extensive experience of our management, we were able to build effective relationships with key market players in Russia and internationally. Our management focuses on developing competitive advantages across all areas of our business to achieve a leading position among our peers.

Sustainable development

We aim to conduct our business in a sustainable way, seeking to strike a balance between socio-economic development and environmental sustainability. We share the principles of the United Nations Global Compact and the Social Charter of Russian Business, which is reflected in our efforts to promote sustainable economic growth and corporate social responsibility.

We acknowledge the importance of the global climate agenda and work responsibly on reducing GHG emissions through, among other things, increasing energy efficiency, reducing flaring and developing renewable power generation. As of 2019, we cut Scope 1 GHG emissions at our Russia-based enterprises by 3.3%, to our 2016 level.

We are an active supporter of social projects across the regions of our operations. We focus on social investments in sports, support for indigenous and minority peoples in northern Russia and the preservation of cultural and historic heritage.

Strategy

Strategic Objectives

Our strategy aims at creating shareholder value through pursuing attractive oil and gas investment opportunities in Russia and internationally, rigorous cost control and constant improvement of our efficiency and profitability,

including through the application of sophisticated technologies. Adherence to key sustainability principles is an integral part of our strategy.

Our key strategic objectives include the following:

- *Efficient reserve replacement.* We seek to achieve a 100% proved reserve replacement ratio at competitive cost and with balanced risk, organically and through acquisitions.
- *Long-term sustainable growth of hydrocarbon production.* We aim to manage our upstream portfolio to maintain balance and diversification across different regions and types of reserves, securing long-term sustainable organic hydrocarbon production growth with a focus on value.
- *Focus on high-margin upstream projects and efficiency.* We seek to prioritise investments in upstream projects with the highest efficiency. We intend to accelerate development of high-margin greenfield projects and brownfield projects located close to existing infrastructure, with relatively low cost per barrel. We also intend to continue increasing our efficiency in upstream projects by optimising our investments and lifting costs and applying advanced technologies at our brownfield projects in order to accelerate production from our existing reserve base, enhance the recovery factor and convert contingent resources into proved reserves.
- *Apply advanced technologies in upstream and downstream.* We plan to continue developing our technological expertise (including drilling, enhanced oil recovery, offshore, refining and petrochemical technologies) to achieve higher operational efficiencies and enhance our competitive advantages.
- *Maintain advanced position in downstream segment in Russia.* With the completion of our major refinery upgrade programme in 2016, we believe our refining segment is one of the most advanced in Russia. We seek to maintain our advanced position in this segment and focus on increasing efficiency of our refineries, reducing operating costs and increasing the light product yield. We also aim to maximise retail sales of the oil products produced at our refineries in the adjacent regions with high sales potential.
- *Maximise positive effect of vertical integration.* We plan to develop the most dynamic and profitable businesses in our vertically integrated production chain to increase our profitability per barrel of hydrocarbon production and reduce our sensitivity to adverse macroeconomic changes.
- *Secure financial stability.* We strive to ensure financial stability in any macroeconomic environment through strict financial discipline, a flexible investment programme and low leverage.
- *Adhere to high corporate governance standards.* We intend to continue improving our corporate governance system based on international best practices. We believe that a top-quality management team and optimal corporate structure will enable us to maximise our efficiency and create shareholder value.
- *Adhere to key sustainability principles.* We aim to support long-term economic growth, social stability, prosperity and progress in the regions where we operate, as well as caring for the environment and ensuring sustainable use of natural resources and limiting climate change. We strive to minimise our environmental impact and to meet or exceed international safety standards.

History

We were initially established in November 1992 as a state-owned oil company, LangepasUraiKogalymneft (from which the “LUK” acronym derives). In line with the Russian Government’s privatisation plan, we were converted into a joint stock company in 1993, and the Russian Government transferred to us 51% of the voting shares of 15 enterprises. The Russian Government transferred nine additional enterprises to us in 1995. Since 1995, we have carried out a share exchange programme to increase our shareholding in each of these 24 enterprises to 100%. In 1994, the Russian Government disposed of 51% of our share capital through an exchange of shares for vouchers tendered by private investors in Russia, sales to private investors in Russia for cash and the distribution of shares to employees. In 2002, we conducted an initial public offering and became the first Russian company to obtain a full listing on the London Stock Exchange when our common shares and ADRs were admitted to the Official List. The Russian Government subsequently sold its remaining 7.6% of our shares in 2004.

In July 2015, we changed our legal form and name from OAO LUKOIL, an open joint stock company, to PJSC “LUKOIL”, a public joint stock company, in accordance with changes to the Civil Code of the Russian Federation.

Corporate Structure

Our operations in Russia are conducted primarily through:

- five principal production subsidiaries: LUKOIL-West Siberia, RITEK, LUKOIL-Perm, LUKOIL-Nizhnevolzhskneft and LUKOIL-Komi. We own 100% of each of these companies;
- four principal refining subsidiaries: LUKOIL-Permnefteorgsintez (the Perm refinery), LUKOIL-Volgogradneftepererabotka (the Volgograd refinery), LUKOIL-UNP (the Ukhta refinery) and LUKOIL-Nizhegorodnefteorgsintez (the Nizhny Novgorod refinery). We own 100% of each of these refineries; and
- four wholly-owned regional marketing and distribution subsidiaries.

Our international operations are conducted through our subsidiary LUKOIL INTERNATIONAL GmbH (“**LUKOIL INTERNATIONAL**”), which owns and operates our international exploration and production assets. LUKOIL INTERNATIONAL also owns LITASCO SA (“**LITASCO**”), our wholly-owned trading subsidiary.

We divide our operations into three main business segments: exploration and production; refining, marketing and distribution; and corporate and other. These three segments are discussed below, except for non-material activities in the corporate and other segment. For more information about our segments, see Note 33 “*Segment information*” to our audited annual consolidated financial statements which are included elsewhere in this prospectus.

Exploration and Production

Overview

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). Our core producing areas in Russia are the West Siberia, Ural, Volga and Timan-Pechora regions, which had, as of 31 December 2019, an aggregate of 14,019 mmbob of proved and 5,889 mmbob of probable hydrocarbon reserves.

Our main exploration and production subsidiaries in West Siberia are LUKOIL-West Siberia, RITEK and LUKOIL-AIK. West Siberia is currently our main oil production region in Russia, which accounted for 45.1% of our domestic crude oil production in 2019.

Our main exploration and production subsidiary in the Ural region is LUKOIL-Perm. Our main exploration and production subsidiary in the Volga region is LUKOIL-Nizhnevolzhskneft. In Timan-Pechora, our main exploration and production subsidiary is LUKOIL-Komi.

Our primary international areas of focus are Iraq, Azerbaijan, Uzbekistan, Kazakhstan, Mexico and West Africa.

Licences

We must obtain licences from governmental authorities to explore for and produce oil and gas. As of 31 December 2019, we held 539 licences, of which 486 are either production or combined exploration and production licences and 53 are exploration licences. Exploration licences give the licence holder the non-exclusive right to explore for oil and gas in a defined area and generally have a term of five years. These licences do not give us the right to extract any hydrocarbons we find. However, if our exploration efforts are successful and we find hydrocarbon reserves, our exploration licences generally provide that we can obtain a production licence without auction or tender. Our licences were mainly issued prior to 2000. Our production licences generally have an initial term of 20 years and give us the exclusive right to extract oil and natural gas from fields in a defined area. Our combined exploration and production licences permit both exploration and production and generally have an initial term of 25 years.

Due to substantial changes to the relevant legislation in 2000, new exploration and production licences are issued for a period equal to the economic life of the relevant field. With respect to our original licences (those that pre-date such legislation), we routinely obtain extensions to the licences that have expired and to date, none of our licence renewal applications have been denied. Approximately 7% of our subsoil use licences for production

expire between 2020 and 2024, and the licences that need to be extended during the next 12 months comprise 0.6% of our subsoil use licences for production. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*” for more information on the risks relating to our licences. Our licences generally impose obligations on the licence holder to pay certain local and federal taxes and meet certain environmental requirements. Licences also generally require the licence holder to make various commitments, including extracting an agreed target amount of reserves annually, conducting agreed minimum drilling levels and other exploratory and development activities, protecting the environment in the licence area from damage and providing certain progress reports and geological data to the relevant authorities. Licence holders must also make payments for subsoil use pursuant to Russian law. Licences may be suspended or revoked if the licence holder fails to comply with their terms or to heed warnings from regulatory authorities. See “*Regulation of the Oil Industry in the Russian Federation—Subsoil Production Licences*”.

In 2019, we won a number of tenders for subsoil use licences with respect to the following oil fields:

- our subsidiary LUKOIL-Perm won a subsoil use licence for the Toshkurovsky field in the Republic of Bashkortostan, with recoverable resources estimated at 1.6 million tonnes of crude oil and gas condensate and 1.8 billion cubic feet of gas under the D0+D1 categories of the Russian system for classifying reserves;
- Volgodeminoil, a joint venture between our subsidiary RITEK and Wintershall Holding GmbH, won a subsoil use licence for the Severo-Belokamenny field in the Saratov region, with recoverable resources estimated at 5.3 million tonnes of crude oil and gas condensate and 45.9 billion cubic feet of gas under the D0+DL+D1 categories of the Russian system for classifying reserves;
- our subsidiary RITEK won subsoil use licences for (i) Zhuravlevsky field in the Orenburg region, with recoverable reserves and resources estimated at 3.2 million tonnes of crude oil and 14.1 billion cubic feet of gas under the C1+D1 categories of the Russian system for classifying reserves; (ii) the Nizhneozernoye-1, Nizhneozernoye-2, Tsentralnoye-1 and Tsentralnoye-2 fields in the Orenburg region with recoverable resources estimated in aggregate at 30.3 million tonnes of crude oil and 307.2 billion cubic feet of gas under the DL+D1 categories of the Russian system for classifying reserves;
- our subsidiary LUKOIL-Perm won a subsoil use licence for the Yuzhno-Pyzepsky field in the Republic of Udmurtia, with recoverable reserves and resources estimated at 0.9 million tonnes of crude oil under the C1+C2+D1 categories of the Russian system for classifying reserves.

Oil and Gas Reserves

At our request, Miller and Lents, independent reservoir engineers, has carried out an independent audit of our reserve estimates as of 31 December 2019. Unless otherwise specified, any information in this prospectus relating to our estimated crude oil and gas reserves is extracted or derived from the reserves reports audited by Miller and Lents as of 31 December 2019, 2018 and 2017. See “*Presentation of Reserves and Resources*”.

The process of estimating oil reserves is complex and inherently uncertain. We must project production rates and timing of development and analysis available geological, geophysical, production, engineering and economic data for each reservoir. The extent, quality and reliability of this data can vary. The accuracy of reserves data is also a function of the quality and quantity of other available data, engineering and geological interpretation and judgment. See “*Summary Consolidated Financial and Other Information—Summary Reserves and Production Information*”. See also “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—The crude oil and natural gas reserves data in this prospectus are only estimates and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates*”.

The following table sets forth our total crude oil and natural gas reserves as of 31 December 2019.

Reserve Category	Oil (mmbbls)	Net reserves ^{(1), (2)}	
		Gas (bcf)	Total (mmbobe)
PROVED			
Developed:			
Russia.....	7,508	5,765	8,468
Eurasia (excluding Russia).....	199	4,481	947
Africa	18	61	28

Middle East	74	83	88
Undeveloped:			
Russia.....	3,947	10,680	5,727
Eurasia (excluding Russia).....	130	1,334	352
Africa	0	0	0
Middle East	139	123	159
Total Proved	12,015	22,527	15,769
PROBABLE			
Russia.....	4,585	8,345	5,976
Eurasia (excluding Russia).....	26	732	148
Africa	19	141	43
Middle East	41	57	50
Total Probable.....	4,671	9,275	6,217
POSSIBLE			
Russia.....	2,486	2,918	2,972
Eurasia (excluding Russia).....	10	22	14
Africa	1	18	4
Middle East	9	8	10
Total Possible.....	2,506	2,966	3,000

- (1) Net oil and gas reserves include our equity share of reserves of our affiliated companies and reserves that we do not beneficially own that are attributable to non-controlling interests in our consolidated subsidiaries. For disclosure that excludes reserves attributable to our equity affiliates, see Table IV of “Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)”, supplemented to our consolidated financial statements and notes thereto included elsewhere in this prospectus and presented in accordance with ASC No. 932 (formerly SFAS No. 69), “Disclosures About Oil and Gas Producing Activities”.
- (2) The above figures assume that all our production licences in Russia will be renewed in the ordinary course and that our fields would be produced until the economic limit of production has been reached. See “Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations”.

For further information on our estimated oil and gas reserves as of 31 December 2019, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Operational Highlights—Reserves Base”.

The following tables set forth our Russian crude oil and gas reserves broken down by our major geographic production areas as of 31 December in each of 2019, 2018 and 2017.

	Net Oil Reserves ^{(1),(2)}								
	31 December 2019			31 December 2018			31 December 2017		
	<i>(mmbbls)</i>								
	<i>Proved</i>	<i>Probable</i>	<i>Proved plus Probable</i>	<i>Proved</i>	<i>Probable</i>	<i>Proved plus Probable</i>	<i>Proved</i>	<i>Probable</i>	<i>Proved plus Probable</i>
West Siberia	6,070	2,885	8,955	6,184	2,997	9,181	6,255	3,039	9,294
Ural Region	2,112	519	2,631	2,122	533	2,655	2,062	464	2,526
Volga Region.....	810	281	1,091	797	310	1,107	732	341	1,073
Timan-Pechora	2,289	815	3,104	2,291	829	3,120	2,183	760	2,943
Other.....	174	85	259	183	91	274	178	92	270
Total for Russia.....	11,455	4,585	16,040	11,577	4,760	16,337	11,410	4,696	16,106

	Net Gas Reserves ^{(1),(2)}								
	31 December 2019			31 December 2018			31 December 2017		
	<i>(bcf)</i>								
	<i>Proved</i>	<i>Probable</i>	<i>Proved plus Probable</i>	<i>Proved</i>	<i>Probable</i>	<i>Proved plus Probable</i>	<i>Proved</i>	<i>Probable</i>	<i>Proved plus Probable</i>
West Siberia	12,688	5,103	17,791	12,723	5,129	17,852	12,780	4,758	17,538
Ural Region	812	175	987	832	183	1,015	802	158	960
Volga Region.....	2,182	2,760	4,942	2,153	2,761	4,914	2,134	2,800	4,934
Timan-Pechora	748	295	1,043	797	313	1,110	761	296	1,057
Other.....	14	12	26	14	11	25	14	13	27
Total for Russia.....	16,444	8,345	24,789	16,519	8,397	24,916	16,491	8,025	24,516

- (1) Net oil and gas reserves include our equity share of reserves of our affiliated companies and reserves that we do not beneficially own that are attributable to non-controlling interests in our consolidated subsidiaries. For disclosure that excludes reserves attributable to

our equity affiliates, see Table IV of “Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)”, supplemented to our consolidated financial statements and notes thereto included elsewhere in this prospectus and presented in accordance with ASC No. 932 (formerly SFAS No. 69), “Disclosures About Oil and Gas Producing Activities”.

- (2) The above figures assume that all our production licences in Russia will be renewed in the ordinary course and that our fields would be produced until the economic limit of production has been reached. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*”.

Exploration and Production in Russia

Exploration and development activities

In 2019, as a result of our geological works, we discovered seven oil fields and 28 oil deposits in Russia. We drilled 54 new exploration wells in Russia in 2019, a 10.0% decrease compared to 2018. In 2019, we started field development at 12 new oil fields and one gas condensate field in Russia. Our exploration drilling in Russia totalled approximately 197 thousand metres in 2019. In Russia, we carried out 303 kilometres (189 miles) of 2D seismic exploration and 7,400 sq. km (2,891 sq. mi) of 3D seismic exploration in 2019. Our exploration and development costs in Russia totalled RUB 326.8 billion in 2019.

Our exploration and development costs mainly relate to the development of our major greenfield projects in the Caspian, Timan-Pechora and West Siberia regions and maintenance of production from our brownfield projects primarily in West Siberia.

Production

The majority of our current production comes from our four core regions: West Siberia, Timan-Pechora, Volga (including the North Caspian area) and Ural. In Russia, our major oil producing subsidiaries are LUKOIL-West Siberia, RITEK, LUKOIL-Komi, LUKOIL-Nizhnevolzhskneft and LUKOIL-Perm. Our total Russian crude oil production (including our share in equity affiliates) was 604.7 mmbbls (82.1 million tonnes) in 2019, representing 14.6% of all Russian crude oil production for 2019, according to CDU TEK.

External limitations driven by the agreement between OPEC and certain non-OPEC countries, including Russia, were the main factor for our liquids production dynamic in Russia in 2017, 2018 and 2019. By May 2017, we reduced our liquids production in Russia by 45,000 bpd from the level in October 2016, and we then kept production flat through the remaining part of 2017. To comply with production limitations, we limited our production in the traditional regions of our Russian operations (West Siberia and Timan-Pechora) at the least-productive fields and fields with high water-cuts. During the first half of 2018, our production remained unchanged compared to the second half of 2017. We increased our production in July 2018, when the parameters of the OPEC+ agreement were amended. In December 2018, the OPEC+ countries agreed to decrease crude oil production relative to October 2018 levels until June 2019, which subsequently was prolonged until March 2020. Due to this agreement, we reduced our liquids production by 33.4 thousand bpd (as compared to our production volumes in October 2018). In March 2020, the OPEC+ countries were unable to agree on further limitations of crude oil production, and starting from 1 April 2020, the production limitations ceased to exist. On 12 April 2020, the OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million bpd beginning in May 2020; these initial limitations will last for two months with the collective output limitations of OPEC+ then decreasing to 7.7 million bpd from July 2020 and then further decreasing to 5.8 million bpd from January 2021 until the agreement expires in the end of April 2022. According to the OPEC+ agreement, Russia will reduce its crude oil production to 8.5 million bpd, starting from May 2020 with respective increases in production from July 2020 and January 2021. We expect that Russian oil companies, including LUKOIL, will reduce their production on a pro rata basis determined by each company’s average daily production in February and March 2020. As a result, we may reduce our crude oil production in Russia by approximately 300 thousand bpd as compared to our average daily production in February and March 2020. We expect that negotiations between the Russian Ministry of Energy and Russian oil companies on the reductions on crude oil production will be finalised by the end of April 2020.

In Russia, we produced (including our share in equity affiliates) 628.5 bcf (104.8 mmmboe) of gas in 2019.

As part of our cost optimisation strategy, we are using advanced reserve management techniques to increase production at our wells, and we are shutting down low-production non-efficient wells. We believe that these efforts contribute to the efficiency of our upstream operations. The following table sets forth our daily crude oil and natural gas liquids production data (including our share in equity affiliates) in our main production areas in Russia for the periods indicated.

Daily Crude Oil and Natural Gas Liquids Production⁽¹⁾			
For the year ended 31 December			
	2019	2018	2017
	<i>(mbls/day)</i>		
West Siberia.....	765	774	801
Ural Region	336	330	326
Volga Region.....	240	235	205
Timan-Pechora.....	323	323	323
Other in Russia	32	32	33
Totals for Russia	1,696	1,694	1,688

(1) Natural gas liquids produced at the Group's gas processing facilities.

The following table sets forth our daily gas production data (including our share in equity affiliates) in our main production areas in Russia for the periods indicated.

Daily Gas Production			
For the year ended 31 December			
	2019	2018	2017
	<i>(mboe/day)</i>		
West Siberia.....	201	210	217
Ural Region	23	15	16
Volga Region.....	29	29	25
Timan-Pechora.....	33	33	35
Other in Russia	1	1	1
Totals for Russia	287	288	294

West Siberia Operations

The West Siberia basin extends over an area of approximately 3.1 million sq. km (1.2 million sq. mi). The basin is bordered on the west by the Ural Mountains, on the south by the Kazakhstan plate and on the east by the Siberian plate, is open to the north and extends under the Kara Sea. Our West Siberia crude oil production operations accounted for 45.1% of our domestic crude oil production in 2019. Our core gas producing area in Russia is the Bolshekhetskaya depression in the Yamal-Nenets Autonomous District in West Siberia.

Our West Siberia production operations are mainly conducted through LUKOIL-West Siberia, a wholly-owned consolidated subsidiary that operates through six production units. Other subsidiaries operating in the region include LUKOIL-AIK, Tursunt and the West Siberia unit of RITEK.

In 2019, we completed construction of 28 exploration wells in West Siberia with a success rate of 82%.

As of 31 December 2019, LUKOIL-West Siberia had proved crude oil reserves of 5,657.8 mmbbls (771.9 million tonnes) and probable crude oil reserves of 2,649.6 mmbbls (361.5 million tonnes). As of the same date, LUKOIL-West Siberia had proved natural gas reserves of 12,542.5 bcf (2,090.4 mmboe) and probable natural gas reserves of 5,036.5 bcf (839.4 mmboe).

LUKOIL-West Siberia produced 253.9 mmbbls (34.2 million tonnes) of crude oil in 2019. Our largest oil producing fields in the region are Tevlinsko-Russkinskoe, Povkhovskoe and Vatyeganskoe, producing in total approximately 217,000 barrels of crude oil per day in 2019.

At the Bolshekhetskaya depression, we have two oil and gas condensate fields (Pyakyakhinskoye and Salekaptskoye), one oil and gas field (Nakhodkinskoye), one oil field (Vareyskoye) and three gas condensate fields (Yuzhno-Messoyakhskoye, Khalmerpautinskoye and Severo-Khalmerpautinskoye).

Three fields (Nakhodkinskoye, Pyakyakhinskoye and Yuzhno-Messoyakhskoye) have been launched into production. The remaining fields represent future production upside potential in the region. Gas production by LUKOIL-West Siberia amounted to 440.4 bcf (73.4 mmboe) in 2019. Our largest gas producing field in the region is the Nakhodkinskoye field in the Bolshekhetskaya depression, which had proved gas reserves of 1.8 trillion cubic feet as of 31 December 2019. In December 2019, we launched the second phase of a compressor booster station at the field, which enables us to increase production. In January 2017, we started commercial production of gas from the Pyakyakhinskoye field which had proved gas reserves of 1.8 trillion cubic feet as of 31 December 2019.

In 2019, we produced 171.2 bcf (28.5 mmboe) of natural gas at the Nakhodkinskoye field and 134.2 bcf (22.4 mmboe) of natural and associated petroleum gas at the Pyakyakhinskoye field.

We started commercial production of oil and gas condensate at the Pyakyakhinskoye oil and gas field in the Bolshekhetskaya depression in October 2016, and production at the field was 12.1 mmbbls (1.6 million tonnes) of crude oil and gas condensate in 2019. Since 2019 the field is subject to a special tax regime with tax on additional income. In December 2019, we started pilot production at the Yuzhno-Messoyakhskoye gas condensate field in the Bolshekhetskaya depression. The field was initially discovered in 1987. We plan to decide on full-scale development of the field depending on the results of the pilot production phase. We plan to launch pilot production at the Khalmerpautinskoye gas condensate field in the Bolshekhetskaya depression in 2020.

The Imilorskoye field which is located in close proximity to our largest Tevlinsko-Russkinskoye field was launched in 2014. As of 31 December 2019, the Imilorskoye field had proved reserves of 108.0 mmbbl (14.7 million tonnes) of crude oil and gas condensate and 46.0 bcf (7.7 mmboe) of gas, and probable reserves of 127.1 mmbbl (17.3 million tonnes) of crude oil and gas condensate and 54.1 bcf (9.0 mmboe) of gas. In 2017, we received state approval for the full-scale development plan of the field. Crude oil production at the Imilorskoye field was 8.4 mmbbls (1.1 million tonnes) in 2019, which is 44% higher than in 2018. The field is one of our main production growth drivers in West Siberia, having commissioned 112 production wells in 2019. As of 31 December 2019, we had 240 production wells, 108 injection wells and 31 water supply wells active at the field.

We also effectively own 73.05% of LUKOIL-AIK, which produces crude oil from the Kogalymskoye field. As of 31 December 2019, LUKOIL-AIK's proved crude oil reserves were 255.6 mmbbls (34.9 million tonnes) and probable crude oil reserves were 98.8 mmbbls (13.5 million tonnes). LUKOIL-AIK's production was 12.1 mmbbls (1.6 million tonnes) of crude oil in 2019.

We own 100% of RITEK, which has operations in the West Siberia, Ural, Volga and Tatarstan regions. As of 31 December 2019, RITEK had total proved crude oil reserves of 527.6 mmbbls (72.0 million tonnes) and total probable crude oil reserves of 280.4 mmbbls (38.3 million tonnes), of which RITEK's West Siberia operations had proved crude oil reserves of 132.5 mmbbls (18.1 million tonnes) and probable crude oil reserves of 81.9 mmbbls (11.2 million tonnes). RITEK produced 8.5 mmbbls (1.1 million tonnes) of crude oil in West Siberia in 2019.

In 2009, we started pilot production of oil at the Vinogradov field which was initially discovered in 1983. As of 31 December 2019, the Vinogradov field had proved reserves of 63.0 mmbbl (8.6 million tonnes) and probable reserves of 37.8 mmbbl (5.2 million tonnes). In 2019, the production at this field was 3.4 mmbbls (454.1 thousand tonnes) of crude oil, which is 29% higher than in 2018. The field is one of the main growth factors for our liquids production in West Siberia, commissioning 33 production wells in 2019. As of 31 December 2019, we had 129 production wells.

In addition, in February 2019, we extended our reserve base by acquiring a 100% interest in LLC Yuzhno-Sardakovskoye which owns subsoil use licences for the Yuzhno-Sardakovskiy and the Yanchinsky oil fields. As of 31 December 2019, these fields had proved reserves of 8.3 mmbbl (1.1 million tonnes) and probable reserves of 13.5 mmbbl (1.8 million tonnes). These fields are located in close proximity to LUKOIL-West Siberia's infrastructure.

In November 2019, we also acquired a 100% interest in LLC Talinskoye which owns a subsoil use licence for the Zapadno-Talinsky field in the Khanty-Mansiysk Autonomous District-Yugra. As of 31 December 2019, the field had proved reserves of 9.3 mmbbl (1.3 million tonnes) and probable reserves of 32.7 mmbbl (4.5 million tonnes). The oil field is located in close proximity to LUKOIL-West Siberia's infrastructure.

Ural and Volga Regions

Our production of crude oil in the Ural and Volga regions accounted for approximately 33.0% of our domestic production in 2019. The Volga-Ural basin covers an area of approximately 700,000 sq. km (270,000 sq. mi), which includes the Russian cities of Astrakhan, Orenburg, Perm, Samara and Volgograd. The basin is a regional uplift of the east-central part of Russia and is bounded on the east by the Ural Mountains, on the south by the Pre-Caspian basin and on the west by the Baltic basin.

We have three principal wholly-owned production subsidiaries operating in the Volga and Ural regions: RITEK, LUKOIL-Perm and LUKOIL-Nizhnevolzhskneft (which operates in the North Caspian region).

In December 2019, our company RITEK, LLC Technological Centre "Bazhen" (a subsidiary of PJSC Gazprom Neft) and PJSC Tatneft established a joint venture, LLC New Technologies for Oil Production, to develop the

Savitsky and Zhuravlevksy fields in the Orenburg region. Each party has an 1/3 interest in the joint venture. LUKOIL and RITEK are currently negotiating the programme for geological research in these fields.

As of 31 December 2019, LUKOIL-Perm, LUKOIL-Nizhnevolzhskneft and RITEK (together with their subsidiaries) had proved crude oil reserves of 2,900.7 mmbbls (395.7 million tonnes) and probable crude oil reserves of 796.3 mmbbls (108.6 million tonnes) in the Volga and Ural regions. As of the same date, they had proved gas reserves of 2,984.4 bcf (497.4 mmboe) and probable gas reserves of 2,929.3 bcf (488.2 mmboe). They produced 197.8 mmbbls (26.7 million tonnes) of crude oil in 2019 in the regions.

North Caspian Operations

We hold licences to explore and develop certain areas in the northern part of the Caspian Sea. This is a strategic region for us as it is one of the main production growth drivers in the mid- and long-term. As of 31 December 2019, in this region our proved crude oil reserves were 543.1 mmbbls (74.1 million tonnes) and probable crude oil reserves were 151.1 mmbbls (20.6 million tonnes). As of the same date, our proved gas reserves were 1,927.2 bcf (321.2 mmboe) and probable gas reserves were 2,617.1 bcf (436.2 mmboe) in the region.

Geological exploration work carried out by the Group since 1995 led to the discovery of nine large fields: the Yu. Korchagin field (with water depths of 10 to 13 metres in the area where the field is located), the Khvalynskoye field (with water depths of 23 to 31 metres in the area where the field is located), the 170th kilometre field (with water depths of 27 metres in the area where the field is located), the V. Grayfer field (with water depths of 6 to 12 metres in the area where the field is located, and formerly known as the Rakushechnoye field), the Yu. Kuvykin field (with water depths of 14 metres in the area where the field is located), the V. Filanovsky field (with water depths of 4 to 11 metres in the area where the field is located), the Zapadno-Rakushechnoye field (with water depths of 0.3 to 0.6 metres in the area where the field is located), the Rybachye field (with water depths of 4.6 to 4.8 metres in the area where the field is located), and the Tsentralnoye field (with water depths of 400 to 500 metres in the area where the field is located).

LUKOIL-Nizhnevolzhskneft is our operating subsidiary for development and production in the North Caspian.

In March 2005, we signed an equal participation joint venture agreement with KazMunayGaz, a state-owned oil and gas company of Kazakhstan, and formed the Caspian Oil & Gas Company joint venture for the development of the Khvalynskoye field. Each party has a 50% interest in the joint venture. Caspian Oil & Gas Company has prepared a feasibility study for a production sharing agreement (“PSA”) in relation to the project, which is currently under review by Russian state authorities.

The Yu. Korchagin field was launched in 2010. As of 31 December 2019, the field had proved oil and gas reserves of 66.1 mmbbls (9.0 million tonnes) and 42.7 bcf (7.1 mmboe), respectively, and probable oil and gas reserves of 15.5 mmbbls (2.1 million tonnes) and 15.8 bcf (2.6 mmboe), respectively. Production at the field was 7.6 mmbbls (981.7 thousand tonnes) of crude oil in 2019. In 2018 at the Yu. Korchagin field, we launched the second production platform and, in 2019, commissioned four production wells at the platform. We also continued drilling from the first platform and commissioned one injection well in 2019. As of 31 December 2019, we had 29 production wells at this field.

As of 31 December 2019, the V. Filanovsky field had proved oil and gas reserves of 402.9 mmbbls (55.0 million tonnes) and 260.1 bcf (43.4 mmboe), respectively, and probable oil and gas reserves of 66.5 mmbbls (9.1 million tonnes) and 41.6 bcf (6.9 mmboe), respectively. We started commercial production at the field in October 2016 after the construction and launch of the first ice-resistant platform. In 2018, as part of Phase 2 construction, we completed the construction and launch of the second ice-resistant platform and drilled 4 production and 2 injection wells, ramping up the V. Filanovsky field to designed capacity. In 2019, we commissioned 5 production wells at the field and, in November 2019, launched Phase 3 facilities at the V. Filanovsky field including the third ice-resistant platform. Production of crude oil at the field was 49.4 mmbbls (6.4 million tonnes) in 2019. As of 31 December 2019, we had 18 production wells at this field.

In 2018, we made the final investment decision and began construction at the V. Grayfer field (previously known as Rakushechnoye field). The field was initially discovered in 2001. The project will use the existing hydrocarbons treatment infrastructure of the V. Filanovsky field, thereby driving capital expenditure savings. In 2019, the platforms for field development were being built at the construction yards. As of 31 December 2019, the field had proved oil and gas reserves of 51.9 mmbbls (7.1 million tonnes) and 19.5 bcf (3.3 mmboe), respectively, and probable oil and gas reserves of 26.2 mmbbls (3.6 million tonnes) and 9.9 bcf (1.6 mmboe), respectively. We plan to start production at the field in 2022.

In January 2013, TsentrcaspNeftegaz (our 50/50 joint venture with Gazprom) and KazMunayGaz established a joint venture, LLC Neftegazovaya Kompaniya Tsentralnaya (NKT), to develop the Tsentralnaya geological structure in the Russian sector of the Caspian Sea, as authorised by the Russian Government pursuant to a treaty between Russia and Kazakhstan. Our indirect share in the joint venture is 25% and Gazprom's indirect share in the joint venture is 25%. In September 2016, the joint venture was granted a licence for geological exploration and production at the Tsentralnaya structure for 27 years with a seven-year geological exploration period. The Tsentralnoye field, located within the Tsentralnaya structure, was discovered in 2008 and, as of 31 December 2019, had recoverable reserves of 666.4 mmbbls (90.9 million tonnes) of crude oil, 20.0 mmbbls (2.7 million tonnes) of gas condensate and 1,472.1 bcf (41.7 mmcm) of gas under the C1+C2 categories of the Russian reserves classification system.

We also own a 49.89% interest in the Caspian Oil Company (another 49.89% is owned by Rosneft and the remaining 0.22% is owned by Gazprom), which discovered the Zapadno-Rakushechnoye field in the North Caspian region in 2008, and the Rybachye oil and gas condensate field in 2014. The geological analysis at these fields continues.

Timan-Pechora Operations

Our production of crude oil in Timan-Pechora accounted for approximately 20.0% of our domestic production in 2019. The Timan-Pechora basin is Russia's third largest region in terms of crude oil reserves. It covers approximately 777,000 sq. km (300,000 sq. mi.) and is a triangular-shaped basin bounded on the east by the Ural Mountains and on the southwest by the Timan ridge and extending beneath the Barents Sea to the north. Timan-Pechora is an important production growth region for the Group.

Currently, our key assets in Timan-Pechora are held through LUKOIL-Komi. LUKOIL-Komi holds most of our exploration and development licences in the Komi Republic, which relate to fields generally located in the southern part of Timan-Pechora. As of 31 December 2019, LUKOIL-Komi had proved crude oil reserves of 2,216.0 mmbbls (302.3 million tonnes) and probable crude oil reserves of 814.8 mmbbls (111.2 million tonnes). LUKOIL-Komi produced 115.8 mmbbls (16.1 million tonnes) of crude oil in 2019.

The Denisovskaya depression in Timan-Pechora is an important greenfield region for us. It includes East-Lambeysorskoe, Bayandyskoe, South-Bayandyskoe, Alabushina and other prospective fields and structures. In 2019, oil production was 20.1 mmbbls (2.7 million tonnes) in the region.

Timan-Pechora contains most of our heavy oil reserves, which are concentrated at the Yaregskoye and permo-carbon deposit of Usinskoye fields. The fields are subject to special reduced mineral extraction tax rates due to the nature of their reserve base. This compensates for higher development and lifting costs at these fields compared to our conventional fields operating under the standard tax regime. Heavy oil fields are an important production growth factor for us. Production of crude oil at the Yaregskoye and permo-carbon deposit of Usinskoye fields was 32.3 mmbbls (4.9 million tonnes) in 2019. Over the past few years, we have commissioned new facilities at these fields, including in 2019, when we commissioned a 100 tonnes per hour steam generation facility and 204 underground wells at the Yaregskoye field and a 40 tonnes per hour steam generation facility and 30 production wells at the Usinskoye field.

We own a 25.1% interest in Bashneft-Polyus, a joint venture with PJSC Bashneft. Bashneft-Polyus was created to develop the large Trebs and Titov oil fields in Timan-Pechora, and Bashneft-Polyus acquired a subsoil licence in May 2014. As of 31 December 2019, our interest in proved oil reserves of the fields was 73.1 mmbbls (10.0 million tonnes). Our share in crude oil production from the fields was 2.1 mmbbls (276.5 thousand tonnes) in 2019. Crude oil produced at the fields is delivered to end customers through our transportation system in Timan-Pechora which includes a pipeline and a marine terminal at Varandey on the Barents Sea.

Other Operations

We also conduct exploration and production operations in Kaliningrad and Tatarstan through our wholly-owned subsidiaries LUKOIL-Kaliningradmorneft and RITEK's Tatarstan operations. As of 31 December 2019, LUKOIL-Kaliningradmorneft and RITEK's Tatarstan operations had 33.1 mmbbls (4.5 million tonnes) and 138.1 mmbbls (18.8 million tonnes), respectively, of proved crude oil reserves and 7.6 mmbbls (1.0 million tonnes) and 72.1 mmbbls (9.8 million tonnes) of probable crude oil reserves. In May 2019, we commenced commercial operations at the D41 offshore field in the Baltic Sea, which has sea depth ranges from 5 to 25 metres in the area where the field is located.

International Exploration and Production

Currently, our primary international areas of focus are Iraq, Kazakhstan, Uzbekistan, Azerbaijan, Mexico and West Africa. We are participating in exploration projects in 9 countries outside Russia, including geological exploration projects in Norway, Romania, Iraq, Nigeria, Ghana, Cameroon, Egypt, Kazakhstan and Mexico.

Exploration drilling at our international projects totalled 21,491 metres (70,508 feet) in 2019. We carried out 944 kilometres (590 miles) of 2D seismic exploration and 142 sq. km (55 sq. mi) of 3D seismic exploration in our international projects in 2019. Our international exploration and development costs totalled RUB 66.9 billion in 2019.

The following tables set forth our share of the crude oil and gas reserves as of 31 December 2019, 2018 and 2017 at each of our international projects with proved and/or probable reserves:

Area	Percentage Interest	Our Share of Net Oil Reserves (mmbbls)					
		31 December 2019		31 December 2018		31 December 2017	
		<i>Proved</i>	<i>Probable</i>	<i>Proved</i>	<i>Probable</i>	<i>Proved</i>	<i>Probable</i>
Azerbaijan							
Shakh-Deniz	10%	28	6	27	12	27	12
Kazakhstan							
Karachaganak	13.5%	92	0	110	0	101	0
Kumkol	50%	1	0	3	0	5	0
Tengiz and Korolevskoye ...	5%	175	16	186	16	183	11
Uzbekistan							
Kandym-Khauzak-Shady	90%	3	0	3	0	7	1
Gissar	100%	30	4	34	4	36	4
Egypt							
Meleiha	24%	3	0.5	3	1	4	0
WEEM	50%	2	0	2	0	2	0
WEEM Extension	25%	0	0	0	0	0	0
Republic of Congo							
Marine XII ⁽¹⁾	25%	13	19	-	-	-	-
Republic of Iraq							
West Qurna-2	75%	197	32	137	62	302	111
United Arab Emirates							
Ghasha Concession ⁽²⁾	5%	16	9	-	-	-	-
Total International	-	560	86	505	95	667	139

Area	Percentage Interest	Our Share of Net Gas Reserves (bcf)					
		31 December 2019		31 December 2018		31 December 2017	
		<i>Proved</i>	<i>Probable</i>	<i>Proved</i>	<i>Probable</i>	<i>Proved</i>	<i>Probable</i>
Azerbaijan							
Shakh-Deniz	10%	858	246	834	415	742	444
Kazakhstan							
Karachaganak	13.5%	623	0	707	0	713	0
Kumkol	50%	1	0	1	0	2	0
Tengiz and Korolevskoye ...	5%	214	6	222	6	150	4
Uzbekistan							
Kandym-Khauzak-Shady	90%	2,991	331	3,465	363	4,017	767
Gissar	100%	1,129	150	1,258	147	1,500	190
Republic of Congo							
Marine XII ⁽¹⁾	25%	61	141	-	-	-	-
Republic of Iraq							
West Qurna-2	75%	134	23	87	86	34	16
United Arab Emirates							
Ghasha Concession ⁽²⁾	5%	72	33	-	-	-	-
Total International	-	6,083	930	6,574	1,017	7,158	1,421

(1) In September 2019, we completed the acquisition of a 25% interest in the Marine XII licence.

(2) In October 2019, we signed an agreement on the acquisition of a 5% interest in the Ghasha Concession.

In 2019, our international crude oil production (including our share in the crude oil produced by equity affiliates) accounted for approximately 6.2% of our total crude oil production and our international production of gas accounted for approximately 49.2% of our total production of gas.

The following tables set forth our share of the average daily crude oil production and natural gas production in each of the years ended 31 December 2019, 2018 and 2017 at each of our international projects currently in production.

Area	Percentage Interest as of 31 December 2019	Our Share of Oil Production (mbls per day) ⁽¹⁾		
		Year ended 31 December		
		2019	2018	2017
Azerbaijan				
Shakh-Deniz	10%	6.2	4.6	4.2
Kazakhstan				
Karachaganak	13.5%	24.9	23.6	28.9
Kumkol	50%	4.3	4.9	5.7
Tengiz and Korolevskoye	5%	32.6	31.3	31.4
Uzbekistan				
Kandym-Khauzak-Shady	90%	1.9	1.6	0.5
Gissar	100%	11.6	12.3	5.6
Egypt				
Meleiha	24%	2.8	2.8	3.3
WEEM	50%	1.8	1.9	2.0
WEEM Extension	25%	0.1	0.1	0.1
Republic of Congo				
Marine XII ⁽²⁾	25%	2.2	-	-
Republic of Iraq				
West Qurna-2	75%	30.3	28.4	34.2
United Arab Emirates				
Ghasha Concession ⁽³⁾	5%	-	-	-
Total International	-	118.7	111.5	115.9

Area	Percentage Interest as of 31 December 2019	Our Share of Gas Production (mmcf per day) ⁽¹⁾		
		Year ended 31 December		
		2019	2018	2017
Azerbaijan				
Shakh-Deniz	10%	133.1	92.3	82.3
Kazakhstan				
Karachaganak	13.5%	92.7	85.1	94.9
Kumkol	50%	1.9	2.2	2.5
Tengiz and Korolevskoye	5%	60.1	60.0	74.8
Republic of Congo				
Marine XII ⁽²⁾	25%	14.0	-	-
United Arab Emirates				
Ghasha Concession ⁽³⁾	5%	-	-	-
Uzbekistan				
Kandym-Khauzak-Shady	90%	1,012.5	880.8	461.7
Gissar	100%	354.6	402.4	317.6
Total International	-	1,668.9	1,522.8	1,033.8

(1) Production figures include imputed volumes based on our share of revenues attributable to cost and profit of oil volumes and the weighted average commodity prices at the point of sale.

(2) In September 2019, we completed the acquisition of a 25% interest in the Marine XII licence.

(3) In October 2019, we signed an agreement on the acquisition of a 5% interest in the Ghasha Concession.

Azerbaijan

Shakh-Deniz. The Shakh-Deniz field is the largest gas and gas condensate field in Azerbaijan. It is located in the South Caspian Sea and covers approximately 860 sq. km and depths ranging from 100 to 700 metres in the area where the field is located. We hold a 10% interest in a PSA to develop the Shakh-Deniz field. BP is the operator of the project and has a 28.8% interest in the PSA. Our other partners are Turkish Petroleum (19%), Petronas (15.5%), State Oil Company of the Azerbaijani Republic (SOCAR) (10%), National Iranian Oil Company (10%) and SGC Upstream (6.7%). In 2018, Stage 2 development was launched which resulted in further production growth. As of 31 December 2019, the total number of production wells at the field was 19, including two production wells launched in 2019. The field produced 16.8 bcm (our share was 1.4 bcm) of gas and 3.5 million tonnes (our share was 0.3 million tonnes) of gas condensate in 2019 and is expected to further ramp up production to reach project production levels in 2022. Gas from the project is supplied to the domestic market in Azerbaijan

and is also shipped through the Baku-Tbilisi-Erzurum Pipeline (also known as the South Caucasus Pipeline) through Georgia to Turkey, while condensate is shipped through the Baku-Tbilisi-Ceyhan pipeline. In August 2015, a Group company entered into a 12-year credit-facility agreement with a consortium of banks to borrow \$1 billion in connection with Stage 2 development.

Kazakhstan

We participate in a number of projects in Kazakhstan through different subsidiaries, including LUKARCO and LUKOIL Overseas Karachaganak B.V.

Karachaganak. The Karachaganak field was discovered in 1979 and has been operating under a PSA by the Karachaganak Petroleum Operating (“**KPO**”) joint venture since 1997. The term of the PSA is 40 years. We have a 13.5% interest in the joint venture. Our partners are Shell (29.25%), Eni (29.25%), Chevron (18%) and KazMunayGaz (10%). Shell and Eni jointly manage the operations for KPO. In 2019, 11.3 million tonnes of crude oil (our share was 1.1 million tonnes), 18.6 bcm of gas (our share was 1.8 bcm) or 9.9 bcm of gas excluding reinjection (our share was 1.0 bcm) were produced at the field. In 2019, design works as part of the FEED phase were completed for the Karachaganak Expansion Project, which is aimed at extending crude oil production plateau and enhanced condensate recovery.

LUKARCO. LUKARCO, our wholly-owned subsidiary, owns a 5% share in Tengizchevroil, a joint venture which develops the Tengiz and Korolevskoe fields in Kazakhstan, and a 12.5% share in the Caspian Pipeline Consortium (the “**CPC**”), a pipeline project in the Caspian region which is used to transport crude oil produced in Kazakhstan and at our fields in the North Caspian to a marine terminal near the Russian city of Novorossiysk on the Black Sea for further shipment to international markets. See “—*Transportation—Crude Oil Transportation—Pipelines*” for more information about our participation in the CPC.

Kumkol. The Kumkol field was discovered in 1984 and commenced production in May 1990. The northern part of the field, known as Kumkol North, is defined by a separate licence issued in 1995 for a 25-year term. We have a 50% interest in Turgai Petroleum, which owns a 100% interest in and is the operator of Kumkol North. The other 50% interest in Turgai Petroleum is owned by PetroKazakhstan, which is owned by China National Petroleum Corporation (CNPC) and KazMunayGaz. The agreement relating to this project was entered into in April 1996 for a term expiring on 20 December 2020. In November 2019, the parties agreed to extend the term of this agreement until 2030. Production at Kumkol North commenced in September 1995. Crude oil from this field is transported to the Dzhusaly oil loading terminal via the Kumkol Dzhusaly oil pipeline system and is also supplied to the Shymkent refinery for subsequent sale of petroleum products in Kazakhstan and other CIS countries. In 2019, 0.4 million tonnes of crude oil (our share was 0.2 million tonnes) and 39.2 mmcm of gas (our share was 19.6 mmcm) were produced at the field.

Tengiz and Korolevskoye. The Tengiz field was discovered in 1979 and has been operated under a project agreement by the Tengizchevroil joint venture since 1993, which we joined in 1997. The joint venture also operates the Korolevskoye field. LUKARCO, our wholly-owned subsidiary, holds a 5% interest in the project. The project agreement has a term of 40 years. Our partners in this project include Chevron (50%), Exxon Mobil (25%) and KazMunayGaz (20%). Crude oil and other products (dry gas, propane, butane and sulphur) are transported to international markets via pipeline, railway and tankers.

In 2016, Tengizchevroil received approval from the joint venture partners on the final investment decision for the Future Growth Project (“**FGP**”) and Wellhead Pressure Management Project (“**WPMP**”), which are aimed at expansion of oil production at the Tengiz field. FGP envisages an expansion in crude oil production capacity by approximately 12 million tonnes per year (260,000 bpd) to approximately 40 million tonnes per year (867,000 bpd), and the purpose of WPMP is to keep the existing Tengiz plants operating at full capacity. In 2019, as part of the base production plan and FGP, 23 new wells were completed at the Tengiz field. Production at the field was 29.8 million tonnes of crude oil (our share was 1.5 million tonnes) and 12.4 bcm of gas (excluding reinjection, our share was 0.6 bcm).

In April 2019, we concluded an agreement with KazMunayGaz for exploration and development of hydrocarbons in the Zhenis block in the Kazakh sector of the Caspian Sea with depths ranging from 42 to 150 metres in the area where the block is located. Zhenis Operating LLP (a 50/50 joint venture with KazMunayGaz) will be the operator on the project. In accordance with the agreement, the exploration period is nine years and the production period is 25 years with a right to extend the period for up to 45 years if a large hydrocarbon field of more than 100 million tonnes is discovered. Pursuant to the agreement, the primary minimal obligations are to drill one exploration well and complete a 3D seismic survey.

Romania

Trident (block EX-30). In July 2010, we won a tender for exploration and development of the Trident block in the Romanian sector of the Black Sea. We (as operator) hold an 87.8% interest in the consortium to develop this block. The other party is S.N.G.N. Romgaz S.A., the national gas company of Romania (12.2%), under the terms of a concession agreement with the National Agency for Mineral Resources of Romania. The block is located in the Black Sea at depths ranging from 90 to 1,200 metres in the area where the block is located. Initially, the rights to explore this block were received in 2011. The distance to the coastline is 60-100 kilometres and the nearest town on the coast is Sulina. The licence area covers over 1,000 sq. km. In October 2019, we received Romanian government permission and commenced drilling operations at the Trident Block. In December 2019, we completed drilling operations, and we are currently conducting studies on the drilling results to decide on further plans.

Uzbekistan

Kandym-Khauzak-Shady. In June 2004, we signed a PSA with Uzbekneftegaz on the Kandym-Khauzak-Shady project for the production of natural gas in the Bukhoro-Khivinsky Region in South-Western Uzbekistan, including the Khauzak-Shady, Kandym and Kungradskiy licence areas. Our share in the PSA is 90%. The PSA was amended in 2015 and 2016 to extend the term by seven years (until 2046) and to make certain adjustments to improve the economic indicators of the project, respectively. We commenced commercial production of natural gas and gas condensate in the Khauzak-Shady area in 2007 and at the Western Shady section at the end of 2011. In May 2015, we launched two gas treatment plants with a combined capacity of 77.7 bcf (2.1 bcm) of gas per year at the Northern Shady site and the Kuvachi-Alat field in Uzbekistan, as part of the Kandym Early Gas project, the initial stage of developing the Kandym group of six gas condensate fields. In April 2018, we completed construction of the Kandym gas processing plant with a total capacity of 286.0 bcf (8.1 bcm) of gas, which enabled us to bring the total annual capacity of Kandym-Khauzak-Shady to the project level. Gas production in 2019 amounted to 11.49 bcm (our share was 10.47 bcm).

Southwest Gissar and Ustyurt. We have a 100% interest in a PSA for fields in Southwest Gissar and the Ustyurtsky region in Uzbekistan. The 36-year PSA (signed in 2007) covers seven fields in Southwest Gissar. The other party to the PSA is Uzbekneftegaz, the Uzbek national oil company. In 2015, we launched new wells and a compressor booster station at the Gissar project. In November 2016, a Group company entered into a five-year loan agreement with a consortium of banks to borrow \$500 million to finance the development of the Gissar project. In late 2017, we commissioned the main production and processing facilities at the project, including a gas treatment plant with an annual capacity of 4.4 bcm of gas, a gas pre-treatment unit and six gas-gathering stations. As a result, gas production at the Gissar fields reached the planned daily production level equivalent to 5 bcm per year. Gas production in 2019 amounted to 4.25 bcm (our share was 3.67 bcm).

Gulf of Guinea

We own interests in exploration, development and production projects in the Gulf of Guinea in Ghana, Cameroon, Nigeria, and the Republic of Congo.

We own a 38% stake in an offshore exploration project at the Tano block in Ghana. The other parties to the project agreement in Ghana are the state oil company Ghana National Petroleum Corp. (10%), Fueltrade Ltd (2%) and Aker Energy Ghana AS (50%). The Tano block with area of 2,009 sq. km is located in the western part of Ghana's territorial waters in the Gulf of Guinea, near the coast of Cameroon, 80 km from the shoreline. Sea depth in the area where the block is located ranges from 1,600 to 3,000 metres. The project is based on an oil agreement, which came into force in July 2006 for a period of 30 years. Seven hydrocarbon fields have been discovered at the block, five with oil and two with gas. In March 2019, the parties submitted a field development plan to the Ministry of Energy of Ghana. In June 2019, upon receipt of comments from the Ministry of Energy, the parties submitted the revised field development plan. Upon receipt of further comments from the Ministry of Energy, the parties intend to submit a further revised plan in 2020. In 2019, an appraisal well was successfully drilled at the Pecan field, which expanded the potential oil-bearing area. In 2019, two exploration wells were also drilled at the Pecan South and Pecan South geological structures.

In 2015, we acquired a 30% interest in the development of the Etinde site as part of a PSA from Britain's Bowleven plc. The Etinde site is located off the coast of Cameroon in the Gulf of Guinea, and has a total area of approximately 460 sq. km. and a sea depth ranging from 10 to 100 metres in the area where the site is located. The project partners are LUKOIL (30%), New Age (African Global Energy) Ltd (30%, operator), Bowleven Plc (20%) and state-owned Société Nationale des Hydrocarbures of Cameroon (20%). The licence to develop the Etinde area was issued on 29 July 2014 and is valid for 20 years. In 2018, two exploration wells were completed, the field's

geological model was updated and reserves were estimated. Pre-FEED was completed, and the FEED phase began in the beginning of 2020.

We also own an 18% interest in the hydrocarbons development and production project at the OML-140 deepwater block in Nigeria, which we acquired from Chevron in 2015. The 1,220 sq. km block is located in Nigerian territorial waters in the Gulf of Guinea, 135 km from the coast. Sea depth ranges from 1,200 to 2400 metres in the area where the field is located. The parties to the project are LUKOIL (18%), Chevron (22%, operator), Nigerian National Petroleum Corporation (30%) and Oil and Gas Nigeria Limited (30%). Decisions on further exploration works have not yet been taken.

The OML-140 block also includes a small part of the Bonga Southwest and Aparo (“**BSWAp**”) field, the rest of which is located in the neighbouring OML-118 and OML-132 blocks. Participants at the three areas have signed an agreement on joint development of the field. The participants of block OML-140 have taken an 8.33% stake in the BSWAp field, to be divided in proportion to their shares in the OML-140 block. Our effective stake in the BSWAp field is 1.5%. The field operator is Shell. The field has an area of 146 sq. km. In 2015, a 5,354 metre-deep well was drilled at the field and an oil deposit was discovered. In 2017, the field operator postponed planning for field development, and the parties to the project agreed not to take further investment decisions, until the term of the PSA with respect to OML-118 block is extended for a new period. The decision on the extension of the term of the PSA with respect to OML-118 has not yet been taken.

In September 2019, we completed the acquisition of, a 25% interest in the Marine XII project in the Republic of Congo from New Age M12 Holdings Limited. The Marine XII block covers five discovered fields across an area of 571 sq. km and is located on the continental shelf of the Republic of Congo, 30 km from the shore. Sea depth ranges from 20 to 90 metres in the area where the block is located. The parties to the project are LUKOIL (25%), Eni (65%, operator) and the Société Nationale des Pétroles du Congo (10%). The Nene and Litchendjili fields were launched in 2015. As of 31 December 2019, 21 production wells have been drilled at these fields which produced 432.3 thousand tonnes of oil (our share was 108.1 thousand tonnes) and 577.7 mmcm of gas (our share was 144.4 mmcm) in 2019. Works on further stages of the project, which will enable an increase in production, were underway in 2019.

Egypt

Meleiha. The Meleiha block consists of four main oil fields located in the western desert of Egypt. The parties to the project are LUKOIL (24%) and Eni (76%, operator). Oil is delivered to export via a 167-kilometre (104-mile) pipeline to the Al-Khamra oil terminal. We are responsible for 24% of the costs of the project. To cover our costs, we receive a percentage of the “profit oil” from the project. Our share of the “profit oil” from the project was 1.0 mmbbls (131.9 thousand tonnes) in 2019, while overall production at the project was 10.925 mmbbls (1,435 thousand tonnes) of crude oil. In 2019, a letter to agree on terms of a new concession agreement was signed by all interested parties. 53 wells were drilled as part of the Meleiha project in 2019.

WEEM Block. The West Esh El Malahha (“**WEEM**”) is an oil and gas development concession in Egypt. We hold a 50% interest in the project and are responsible for 100% of its costs. To cover our costs, we receive a share in the “profit oil” from the project. Our share in the “profit oil” from the project was 0.6 mmbbls (91.8 thousand tonnes) in 2019, while overall production at the project was 1.432 mmbbls (204 thousand tonnes) of crude oil. The other party to the concession agreement is EGPC.

WEEM Extension. In September 2009, we signed an agreement with Tharwa Petroleum for 50% of its share in the exploration and production of the WEEM Extension block, which adjoins the WEEM block. We currently hold a 25% interest in the project and are responsible for 50% of the project costs. The concession agreement for this block was initially signed in August 2009 between the Government of Egypt, Ganoub El-Wadi Holding Petroleum Company and Tharwa Petroleum Company. Exploratory work on this block began in 2010. In 2019, we completed drilling of two exploration wells, seismic works and detailing the structure. Total oil production for the project was 0.168 mmbbls (24.0 thousand tonnes), our share was 0.041 mmbbls (5.9 thousand tonnes) in 2019.

Iraq

West Qurna-2. In January 2010, we entered into a service agreement for the development and production of the West Qurna-2 oil field in Iraq, one of the largest crude oil fields discovered in the world. As of 31 December 2019, our interest in the proved oil and gas reserves of the field was 197.1 mmbbls (26.9 million tonnes) and 133.6 bcf (22.3 mmbbls), respectively, and probable oil and gas reserves of the field of 32.3 mmbbls (4.4 million tonnes) and 23.6 bcf (3.9 mmbbls), respectively. Currently, the parties of the project are Basra Oil Company (as representative

of the Iraqi Government) and a consortium of contractors, consisting of a Group company (75%) and Iraq's state-owned North Oil Company (25%). The total term of the development and production service agreement is 25 years.

We launched the "Mishrif Early Oil" production phase at the West Qurna-2 field in 2014. As at 31 December 2019, the field includes 121 production wells, including 23 wells drilled in 2019. In 2019, 20.9 million tonnes of crude oil (our share was 1.6 million tonnes) was produced at the field. In accordance with the development and production service agreement, we receive cost compensation from the West Qurna-2 project as well as remuneration fee. As of 31 December 2019, total costs incurred were \$9.2 billion, and the value of compensation crude oil received was \$9.2 billion, in respect of the project. See "Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We may not be able to realise opportunities in Iraq" for a description of risks associated with West Qurna-2 project.

In 2018, we signed an addendum to the development and production service agreement and the final development plan for the West Qurna-2 project. According to the addendum, planned production is 450,000 bpd from the Mishrif formation and 350,000 bpd from the Yamama formation. Total oil production at both formations is expected to reach 800,000 bpd in 2026.

The following table summarises data on capital and operating costs incurred, compensation crude oil received, compensation crude oil to be received and remuneration fee in respect of the project.

	<u>Costs incurred⁽¹⁾</u>	<u>Remuneration fee</u>	<u>Compensation crude oil received</u>	<u>Compensation crude oil to be received</u>
	<i>(millions of U.S. dollars)</i>			
Cumulative at 31 December 2018.....	8,597	424	8,681	340
Change during 2019.....	<u>632</u>	<u>124</u>	<u>561</u>	<u>195</u>
Cumulative at 31 December 2019	<u>9,229</u>	<u>548</u>	<u>9,242</u>	<u>535</u>

(1) Including prepayments.

Block 10. In June 2012, we, along with the Japanese INPEX Corporation, won a competitive bidding process to obtain a licence to operate in Block 10, which covers 5,500 sq. km and is located in the southern part of Iraq in the Di-Kar and Mutannah provinces. In October 2012, the Iraqi Government approved a geologic exploration, development and production contract for Block 10. We are the operator of this project with a 60% interest, and INPEX holds the remaining 40% interest. As a result of the exploration works Eridu oil field was discovered in 2016. In 2017, the parties signed a field appraisal work plan for the period of 2018-2021, which provides for seismic surveys and drilling of appraisal wells, and the Iraqi Ministry of Oil agreed to extend the territory of Block 10 by 141 sq. km. As part of the appraisal phase, we completed seismic surveys and drilled five appraisal wells, which confirmed the current geological model of Block 10 as effective. We started the pre-FEED stage for the development of Eridu field.

Norway

In 2013, we were awarded a licence in the Barents Sea, on the Norwegian continental shelf through a 30% interest in the PL-719 project, which includes blocks 7321/8 and 7321/9. PL-719 has a total area of 594 sq. km, and water depth ranges from 430 to 490 metres in the area where the block is located. The United Kingdom's Spirit Energy (former Centrica) owns a 50% interest and is the operator, and Norway's Aker BP owns a 20% interest. The parties are preparing to drill an exploration well on block 7321/8.

In 2016, we were awarded a licence for the PL-858 project in the Barents Sea with a 20% interest. PL-858 has a total area of 1,432 sq. km, and the average water depth, in the area where the block is located, is 230 metres. The project includes seven blocks and sub-blocks: 7234/3, 6 and 7235/1, 2, 3, 4, 5. Norway's Aker BP is the operator and was awarded a 40% interest, and Norway's Equinor (formerly Statoil) and Petoro each were awarded a 20% interest. The parties are preparing to drill an exploration well on block 7234/6.

Mexico

In July 2015, we and Marak Capital, S.A. de C.V. ("**Marak**") each acquired a 50% indirect interest in Petrolera de Amatitlan S.A.P.I. ("**Petrolera**"), the contractor of the Integrated Exploration and Production Contract (IEPC) for the Amatitlán block in Mexico. In February 2017, Renaissance Oil Corporation (Renaissance) entered into a

definitive agreement to acquire a 25% indirect interest in Petrolera from Marak and take the lead role in operations for the joint development of the block. Renaissance has options to acquire a further 25% from LUKOIL and 12.5% from Marak. LUKOIL has an option to acquire the remaining 12.5% from Marak. The Amatitlán block has an area of 230 sq. km and is located 68 km from the city of Poza Rica in Veracruz State in Mexico. The project is being implemented under a service contract for the production of hydrocarbons, and the outputs are owned by PEMEX. Produced oil is shipped by road to the Soledad gathering system (30 km from the Amatitlán block). Operator services for hydrocarbon production are provided on a cost recovery basis.

In September 2017, we were awarded Block 12, which is located in the southern part of the Gulf of Mexico, 50 km from the coast (Port of Torno Largo). The area of the block is 521 sq. km. with water depth ranging from 150 to 500 metres in the area where the block is located. The PSA was executed in September 2017 with the National Hydrocarbons Commission of Mexico (CNH). In October 2017, the parties agreed on the Block 12 exploration plan and budget for the period of 2018-2020. In November 2018, we signed a farm-out agreement with Eni for Blocks 10 and 12. Pursuant to this farm-out agreement, we assigned a 40% interest in Block 12 to Eni, retained the remaining 60% interest and remained the operator of the project. In turn, Eni assigned to us a 20% interest in Block 10. Eni retained an 80% interest in Block 10 and remained the operator of the project. The transaction was approved by the Mexican state authorities in July 2019. The first exploration well for Block 10 (with water depth ranging from 250 to 600 metres in the area where the block is located) was drilled at the end of 2019, resulting in discovery of an oil field.

In March 2018, we as a part of a consortium were awarded a right to enter into a PSA with respect to Block 28 located in the province of Cuencas del Sureste in the Gulf of Mexico. Upon establishing a joint venture for this project in June 2018, we received a 25% interest in the block and Eni (as operator) received a 75% interest. The area of the block is 807 sq. km., and water depth ranges from 60 to 600 metres in the area where the block is located. In May 2019, the state authorities of Mexico approved the exploration plan which includes drilling of two exploration wells by 2022.

United Arab Emirates

In October 2019, we signed an agreement with the Abu Dhabi National Oil Company (“ADNOC”) to acquire a 5% interest in the Ghasha Concession. Other partners in the concession include Eni (25%), Wintershall Dea (10%), OMV (5%) and ADNOC (55%). The aim of the Ghasha Concession is to develop previously undeveloped deposits of gas, oil and gas condensate located in nine shallow fields in the Arabian Gulf west of Abu Dhabi. The fields are located approximately 40 kilometres from shore with a sea depth up to 24 metres in the area where the fields are located. The fields have proved reserves of 15.7 mmbbl (2.1 million tonnes) of crude oil and gas condensate and 71.9 bcf (12.0 mmboe) of gas.

Refining, Marketing and Distribution

The refining, marketing and distribution segment of our business comprises oil refining, petrochemicals, transport operations, marketing and trading of crude oil, natural gas and refined products and generation, transportation and sales of electricity, heat and related services.

Oil Refining

We have oil refineries in Russia, Romania, Bulgaria, Italy and The Netherlands.

We own and operate four crude oil refineries in Russia, located in Perm, Volgograd, Ukhta and Kstovo (Nizhny Novgorod region). These refineries, along with our mini-refineries in Urai and Kogalym in Russia, had a combined refining capacity of 389.2 mmbls (53.1 million tonnes) per year. Outside Russia, we own and operate refineries in Bulgaria, Romania and Italy and also own a 45% interest in the Zeeland refinery in The Netherlands. Our international refineries have an aggregate refining capacity of 220.7 mmbls (30.1 million tonnes) per year. Our total refining capacity amounts to 609.9 mmbls (83.2 million tonnes) per year.

In 2019, we refined 503.9 mmbls (68.7 million tonnes) of hydrocarbon feedstock at our refineries, including 323.6 mmbls (44.1 million tonnes) at our Russian refineries and 180.3 mmbls (24.6 million tonnes) at our international refineries (including our 45% interest in the Zeeland refinery). We also refined 32.7 mmbls (4.5 million tonnes) of crude oil under arrangements with international third-party refineries.

The following table provides, for each of our refineries, our annual refining capacity and historical throughput for the periods indicated.

Refinery	Annual Refining Capacity	Throughput		
		Year ended 31 December		
		2019	2018	2017
<i>(million tonnes of crude oil)</i>				
Russia				
Perm.....	13.1	12.5	12.7	12.4
Volgograd.....	16.3	14.3	14.4	14.1
Ukhta.....	6.2	2.2	1.9	2.2
Nizhny Novgorod.....	17.0	14.9	14.0	14.2
Mini refineries.....	0.5	0.2	0.2	0.2
International				
Burgas ⁽¹⁾	9.8	6.8	6.0	7.0
Petrotel ⁽¹⁾	2.7	2.5	2.7	2.3
ISAB.....	14.0	10.6	10.3	9.7
Zeeland (LUKOIL share) ⁽¹⁾	3.6	4.7	5.1	5.1
Total	83.2	68.7	67.3	67.2

(1) As of 31 December 2019, we owned 99.85% of the Burgas refinery, 99.77% of the Petrotel refinery and 45% of the Zeeland refinery.

We have invested substantial capital to upgrade and expand our Russian refineries. In 2016, we successfully completed a major multi-year refinery modernisation programme within our expected timeframe and budget. In 2018, we launched the implementation of several selective projects in Russia to improve our product slate, including the start of the construction of a delayed coker unit and an isomerisation unit at our refinery in Kstovo (Nizhny Novgorod). We are also building a bitumen production facility at our refinery in Kstovo and a deasphalting unit at our refinery in Volgograd as part of developing our bitumen business.

The following table provides historical metrics for our Russian refineries for the periods indicated.

	Year ended 31 December		
	2019	2018	2017
Capacity (in millions of tonnes).....	53.1	52.5	52.5
Light product yield (%).....	69.9	69.3	69.2
Refining depth (%).....	88.7	88.0	86.7
Nelson Complexity Index.....	7.4	7.4	7.4

Fuels produced at our Russian refineries and exported to Europe meet the European Union specifications, and all of our European refineries comply with the current European Union standards in terms of the products produced.

In 2019, we spent RUB 52.2 billion on refining capital expenditures, including RUB 39.9 billion in Russia.

The following table sets forth our production of certain refined products at our refineries in Russia for the periods indicated, expressed as a percentage of our total refined products production volume at our refineries in Russia.

Product	Year ended 31 December		
	2019	2018	2017
- diesel fuel	39.5%	39.6%	38.7%
- motor gasoline	18.8%	19.6%	20.0%
- fuel oil	11.1%	11.8%	13.0%
- jet fuel	6.8%	6.7%	6.7%
- lubricants and components	2.3%	2.3%	2.9%
- straight-run gasoline	6.3%	5.2%	5.4%
- vacuum gas oil	0.8%	2.1%	1.4%
- bitumen	2.2%	1.9%	2.2%
- coke	2.6%	2.7%	2.4%
- bunker fuel	3.7%	3.9%	4.4%
- other products	5.9%	4.2%	2.9%
Total in Russia	100%	100%	100%

The following table sets forth our production of certain refined products at our refineries outside Russia for the periods indicated, expressed as a percentage of our total refined products production volume at our refineries outside Russia.

Product	Year ended 31 December		
	2019	2018	2017
- diesel fuel	45.5%	42.2%	43.4%
- motor gasoline	21.8%	19.9%	22.6%
- fuel oil	9.1%	11.9%	13.1%
- jet fuel	4.9%	5.2%	4.6%
- straight-run gasoline	9.8%	9.1%	8.3%
- coke	0.5%	0.9%	0.8%
- other products	8.4%	10.8%	7.2%
Total outside Russia	100%	100%	100%

Russian Refineries

Perm. We own 100% of the Perm refinery, which we acquired in 1991 as part of the Russian Government's privatisation programme. The refinery was built in 1958 and currently has a refining capacity of 13.1 million tonnes per year. The refinery processes a blend of crude oils from the northern part of the Perm region and from West Siberia. It produces a range of products, including gasoline, jet fuel, diesel fuel, lubricants and fuel grade petroleum cokes. The refinery's facilities include crude oil distillation, hydrocracking, catalytic cracking, delayed coking, catalytic reforming, isomerisation, bitumen production, lubricants production and hydrotreating units. We supply crude oil to the Perm refinery from our fields in West Siberia and from the Perm region through the Transneft pipeline network and local intra-field pipelines which feed into an on-site crude oil reservoir park. We transport products from the Perm refinery through the Perm-Andreevka-Ufa oil product pipeline and by rail, river-class tankers and trucks. In 2017, we began deliveries of oil residue from the Nizhny Novgorod refinery to the Perm refinery to increase the utilization rates of the delayed coker and bitumen units. In 2018, we commenced production of road bitumen at the Perm refinery, as well as adopted a digital solution to streamline the distribution of energy flows for improved efficiency. In 2018-2019, we conducted capital repair works at our Perm refinery.

Volgograd. We own 100% of the Volgograd refinery, which we acquired in 1991 as part of the Russian Government's privatisation programme. The refinery was originally built in 1957 and currently has a refining capacity of 16.3 million tonnes per year. The refinery processes a light blend of West-Siberia and Lower-Volga crude oils. It produces a range of products, including gasoline, diesel fuel, jet fuel, lubricants and bitumen. The refinery's facilities include crude oil distillation, hydrocracking, isomerisation, catalytic reforming, coke calcination, delayed coking, bitumen production and hydrotreatment units. We supply crude oil to our Volgograd refinery from our fields in West Siberia and the lower Volga region through the Transneft pipeline system. The Volgograd refinery transports its refined products through the Transnefteproduct pipeline system, as well as by rail, river-class tankers and trucks. In 2017, we started deliveries of diesel fuel to the Novorossiysk sea port via the Transnefteproduct pipeline. In 2018, we commissioned a 10 MW solar power plant at the Volgograd refinery, as well as opened a new terminal for the loading of bitumen products and lubricants. In October 2019, Volgograd refinery began production of low-sulphur bunker fuel (fuel oil), complying with the requirements of the International Convention for the Prevention of Pollution from Ships (MARPOL). In 2018, we started construction of a deasphaltizing unit, which will allow us to increase production volumes and expand product range of lubricants. In 2018-2019, we conducted capital repair works.

Ukhta. We own 100% of the Ukhta refinery, which we acquired in 1999. The refinery was originally built in 1934 and currently has a refining capacity of 6.2 million tonnes per year. The refinery processes a blend of crude oils from Komi fields. It produces a range of products including gasoline, diesel and fuel oil. The refinery's facilities include crude oil distillation, catalytic reforming, visbreaking, isomerisation, bitumen production and hydrotreating units. The refinery also has a tank car loading rack for light refined products. The Ukhta refinery receives crude oil by pipeline and rail. Its refined products are shipped by rail. In 2018-2019, we conducted capital repair works.

Nizhny Novgorod. We own 100% of the Nizhny Novgorod refinery, which we acquired in October 2001. The refinery began operation in 1958 and currently has a refining capacity of 17.0 million tonnes per year. The refinery processes a blend of West Siberia and Tatarstan crude oils. The refinery's production includes gasoline, diesel fuel, fuel oil, jet fuel and bitumen. In March 2017, the refinery commenced commercial production of a unique EKTO 100 gasoline to replace EKTO Sport 98 gasoline in the Company's retail chain. The refinery's facilities include crude oil distillation, catalytic cracking, visbreaking, isomerisation, catalytic reforming, hydrotreating, alkylation, bitumen production and lubricants production units. A dedicated pipeline connects the refinery directly to the Transnefteproduct system, which makes transportation costs comparatively less expensive than rail transport. In 2017, we started supplying gasoline from Nizhny Novgorod refinery to our retail network in Moscow

by pipeline. In 2018, we began construction of a delayed coker complex at the refinery, which is expected to be completed in 2021. This delayed coker complex is expected to improve the refinery's light product yield by more than 10% while reducing fuel oil production by 2.7 million tonnes per year. Also at our Nizhny Novgorod refinery in 2018-2019, we conducted capital repair works and in 2019, began construction of an isomerisation unit to facilitate an increase in high-quality motor gasolines output. In 2019, we also started design works for constructing a propylene production complex at our refinery in Nizhny Novgorod as part of our petrochemical strategy. In 2020, we plan to start construction of a bitumen production complex, which will allow us to further implement our strategy for bitumen business development.

Mini-refineries. We have two mini-refineries in Urai and Kogalym in West Siberia in Russia with a combined annual capacity of 0.5 million tonnes. These mini-refineries refine a blend of local crudes and are each equipped with an atmospheric distillation unit, a catalytic reforming unit and a bitumen unit. The mini-refinery in Kogalym is also equipped with a hydrotreatment unit.

International Refineries

Burgas. We acquired a 58% interest in the Burgas refinery from the government of Bulgaria in October 1999 and have subsequently increased our share in the refinery to 99.85%. The Burgas refinery was built in 1964 and has a refining capacity of 9.8 million tonnes per year. It produces a range of products, including gasoline, diesel fuel, jet fuel and fuel oil. The refinery's facilities include primary refining, catalytic cracking, visbreaking, catalytic reforming, thermocracking, hydrotreating, hydrocracking, alkylation units and bitumen production. The refinery's complex also includes a petrochemicals plant and a polymerisation plant, which produce petrochemical products. See "*—Petrochemicals*" for more information about the Burgas refinery's involvement in our petrochemical operations. The Burgas refinery is located 30 kilometres (19 miles) from a port terminal on the Black Sea. This location allows the refinery to receive crude oil shipments by sea, and also to ship its products by sea in addition to truck, rail and product pipelines. In 2018, we conducted routine maintenance works at our Burgas refinery. In 2019, we also started design works for constructing a propylene production complex as part of our petrochemical strategy.

Petrotel. We own 99.77% of the Petrotel refinery in Romania (PETROTEL-LUKOIL S.A.), which we acquired in a series of transactions from 1998 through 2019. The refinery was built in 1904 and has a refining capacity of 2.7 million tonnes. The Petrotel refinery produces a range of products, including diesel fuel and gasoline, and adjusts its product mix to match demand. Most of the gasoline and diesel fuel produced by the refinery is marketed through LUKOIL's retail network in Romania; the excess is exported to supply LUKOIL's retail stations in neighbouring countries. The refinery processes Urals blend crude oil, which is supplied via pipeline from the Black Sea port of Constanta. Petroleum products are shipped by rail and road. The refinery's facilities include units for crude oil distillation, diesel fuel hydrotreatment, catalytic cracking (for hydrotreatment of gasoline and production of MTBE/TAME), delayed coking and propylene production.

ISAB. We acquired a 49% interest in the ISAB refinery in Sicily, Italy, in December 2008 and subsequently increased our share in ISAB to 100% between 2011 and 2013. The refinery was built in 1975 and has a total refining capacity of 14.0 million tonnes per year. The refinery complex consists of two oil refineries joined by a system of pipelines and integrated into a single operating complex, and also includes three jetties, storage tanks with a total capacity of 4.3 mcm and a 549 MW IGCC power plant. ISAB mainly processes sour crudes, similar to the Urals blend. Feedstock has historically been supplied to the refinery from the Black Sea, North and West Africa and Persian Gulf countries, including from our upstream project, West Qurna-2 in Iraq. Its production includes diesel fuel, gasoline, jet fuel, fuel oil and vacuum gasoil. The refinery is located at the centre of the Mediterranean petroleum products trade, and most of its products are exported, with most of the gasoline produced going to the United States and most of the diesel fuel produced going to European Union markets. In 2018, we conducted routine maintenance works at our ISAB refinery.

Zeeland. We own a 45% stake in the Zeeland refinery near Vlissingen, The Netherlands. We acquired our interest in September 2009 pursuant to an agreement with TOTAL S.A., which owns the remaining 55% stake in Zeeland, and we manage the refinery with TOTAL S.A. on a 50/50 basis. Construction of the refinery was completed in 1973. It has a total refining capacity of 7.9 million tonnes per year (of which our share is 3.6 million tonnes per year). Zeeland has the capability to process a variety of crude oil qualities, although it mainly processes heavy, sulphurous crude oils, and we have historically supplied crude oil to Zeeland from our production in Timan-Pechora. The refinery also has the capacity to import and process hydrocracker feedstocks, such as straight run fuel oil and vacuum gas oil. The hydrocracker configuration at Zeeland is focused on producing premium quality middle distillates, including jet fuel, diesel fuel, solvents and lube base oil. The refinery's location allows it to receive crude oil from sea tankers and to ship refined products by inland waterways. Zeeland owns certain other

assets, including a vessels terminal, a barge jetty and a minority interest (20.7%) in the Maasvlakte Oil Terminal in Rotterdam. In 2019, routine maintenance works were conducted at the Zeeland refinery.

Petrochemicals

Our petrochemical operations are based on our own feedstock and represent an important part of our business as they enable us to enhance our downstream margins and diversify revenues.

Our petrochemical operations are conducted through our two petrochemical plants in Russia, as well as our Burgas and ISAB refineries in Bulgaria and Italy, respectively.

In Russia, we own the Stavrolen and Saratovorgsintez petrochemical plants.

The Stavrolen plant produces polyethylene, liquid pyrolysis fractions, polypropylene, benzene and other products. One of the sources of the feedstock for the Stavrolen plant is associated petroleum gas from our North Caspian fields. Gas is processed at the 2.2 bcm unit built in 2016 into dry gas and liquids, and the liquids are used as petrochemical feedstock, while dry gas is used for power generation and also supplied into the UGSS. We completed the reconstruction of the polyethylene production facilities at the Stavrolen plant in 2018.

The Saratovorgsintez plant produces acrylonitrile and other organic synthesis products. Our Burgas refinery produces mostly polypropylene and our ISAB refinery produces mostly cumene.

Total combined output of products from our petrochemical facilities was 1.1 million tonnes in 2019, and our products were sold in Russia and exported to more than 30 countries.

In 2019 as part of our petrochemical strategy, we started design works for constructing a propylene production complex at our refinery in Nizhny Novgorod. The complex is based on propylene output from the two catalytic cracking units of the refinery. The preliminary feedstock capacity of the complex is 0.5 million tonnes per annum.

In 2019, we also started design works for constructing a propylene production complex at the Burgas refinery. The complex is based on propylene produced at Burgas and Petrotel refineries. The preliminary feedstock capacity of the complex is 0.3 million tonnes per annum.

The following table shows feedstock processing and product output at our petrochemical facilities.

	For the year ended 31 December		
	2019	2018	2017
	<i>(thousands of tonnes)</i>		
Feedstock processing	1,043.7	1,200.1	1,151.7
Marketable products	1,137.5	1,246.1	1,171.2
Polymers and monomers	447.2	465.8	407.8
Products of organic synthesis	456.5	449.2	473.0
Pyrolysis products and fuel fractions	230.6	328.9	288.3
Other	3.3	2.2	2.1

(1) Excluding Burgas refinery.

(2) Including cumene production using own produced propylene as a feedstock at ISAB refinery

Gas Processing

We currently process our gas production at five facilities in Russia: the Lokosovsky gas processing plant (in West Siberia), the Korobkovsky gas processing plant (in the Volgograd region), the Usinsk gas processing plant (in Timan-Pechora), gas processing facilities at the Perm refinery (in the Perm region) and a gas processing unit at the Stavrolen oil and gas chemical complex (in the Stavropol territory). These gas processing facilities have a combined capacity of 240.5 bcf (40.1 mmboe) of gas feedstock and 13.6 mmbbls (1.9 million tonnes) of natural gas liquids per year. We own 100% of each of these processing facilities. Our main gas processing facilities in Russia are the Lokosovsky gas processing plant and the Stavrolen gas processing unit (the processing capacity of each facility is almost 80.0 bcf (13.0 mmboe) per year).

In 2019, our gas processing facilities processed 4.1 bcm of gas feedstock and produced 0.5 million tonnes of natural gas liquids, 1.2 million tonnes of LPG and 2.3 bcm of dry gas. The following table summarises our gas processing activities for the periods indicated:

	Years ended 31 December		
	2019	2018	2017
Gas processing capacity (in mcm per year)	6,810	6,810	6,850
NGL processing capacity (in thousands of tonnes per year)	1,861	1,861	1,861
Processing of petroleum and wet gas (in mcm)	3,910	3,935	3,666
Processing of natural gas (in mcm).....	329	374	372
NGL processing (in thousands of tonnes).....	558	542	519
Products			
NGL (in thousands of tonnes).....	536	522	526
LPG (in thousands of tonnes).....	1,188	1,102	1,036
Stable gas naphta (in thousands of tonnes)	90	97	90
Dry gas (in mcm)	2,515	2,634	2,486

Crude Oil Sales

We sell crude oil that is not processed at our refineries in Russia and internationally. Our international sales include exports from Russia and sales outside Russia of crude oil produced by our international projects, as well as sales of procured crude oil as part of our international trading activity. Our international sales are primarily to customers in Europe.

The table below sets forth our domestic and international crude oil sales for each of the years ended 31 December 2019, 2018 and 2017.

	Years ended 31 December					
	2019		2018		2017	
	(mmbbls)	(billions of rubles)	(mmbbls)	(billions of rubles)	(mmbbls)	(billions of rubles)
Russia	6.9	22.5	15.1	47.5	16.8	37.5
International.....	649.8	2,684.3	609.7	2,666.2	531.4	1,641.3
Total.....	656.7	2,706.8	624.8	2,713.7	548.2	1,678.8

LITASCO

LITASCO, a wholly-owned subsidiary of LUKOIL INTERNATIONAL, is our primary marketing vehicle for international sales of crude oil and refined products. LITASCO's key functions include both marketing the Group's crude oil and products and trading with third parties. Trading with third parties allows LITASCO to enhance margins on LUKOIL's system barrel sales and enables the Group to further expand its international operations. LITASCO is also responsible for supplying crude oil to our international refineries and supply refined products to our retail network in Europe.

In 2019, most of our export volumes of crude oil and refined products from Russia in 2019 were supplied through LITASCO (and its wholly-owned subsidiaries).

LITASCO uses derivative instruments in its trading activity, which enables to hedge price volatility risk. A system of controls is implemented over hedging activities that includes policies covering the authorisation, reporting and monitoring of derivative contracts.

Refined Products Sales

Overview

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil and lubricants. In 2019, we sold a total of 121.0 million tonnes of refined products through wholesale and retail channels, including 24.4 million tonnes, or 20%, in the domestic market, and 96.6 million tonnes, or 80%, internationally. Our international sales include exports from Russia, production at our refineries in Europe, as well as sales of procured products as part of our international trading activity.

The table below provides information on our refined products sales for each of the years ended 31 December 2019, 2018 and 2017.

	Years ended 31 December					
	2019		2018		2017	
	(thousands of	(millions of	(thousands of	(millions of	(thousands of	(millions of

	tonnes)	rubles)	tonnes)	rubles)	tonnes)	of rubles)
Russia	24,441	923,715	25,648	938,092	24,822	776,002
International.....	96,586	3,748,364	97,893	3,961,784	103,699	3,144,226
Total.....	121,027	4,672,079	123,541	4,899,876	128,521	3,920,228

Refined Products Sales in Russia

In Russia, we sell refined products through wholesale and retail channels. We sold a total of 24.4 million tonnes of refined products domestically in 2019. These sales included 9.9 million tonnes through our retail network within Russia and 14.5 million tonnes through wholesale channels. See “—Refining, Marketing and Distribution—Retail Marketing” for more information about our domestic retail filling station network.

The Russian Government has the authority to direct us to deliver crude oil or refined products to certain government-designated customers, which may take precedence over market sales. Government-directed deliveries may take several forms. We may be directed to make deliveries to government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in general. Additionally, some of our oil production licences require us to sell crude oil which we produce to local government agencies. See “Risk Factors—Risks Relating to the Russian Federation—The Russian Government can mandate deliveries of crude oil and refined products, including at less than market prices, which could materially adversely affect our relationships with other customers and, more generally, our business, financial condition and results of operations”.

International Refined Products Sales

Internationally, we sell refined products to third parties through wholesale and retail channels. In 2019, we sold a total of 96.6 million tonnes of refined products in the international market, 18.7 million tonnes of which were exported from Russia. Over that period, 4.2 million tonnes of refined products were sold through our retail network outside Russia and 92.4 million tonnes were sold through wholesale channels. Our international sales include exports from Russia, production at our refineries in Europe, as well as sales of procured products as part of our international trading activity. See “—Refining, Marketing and Distribution—Retail Marketing” for more information about our international retail filling station network.

Gas Sales

We sell natural gas and associated petroleum gas in Russia and internationally. Our primary customers of gas in Russia are companies of the Gazprom group. Internationally, most of our gas is produced at our two projects in Uzbekistan and supplied predominantly to China.

In 2019, we sold 28.7 bcm of gas, including 12.9 bcm in Russia and 15.8 bcm internationally.

Retail Marketing

As of 31 December 2019, we owned, leased and franchised 5,044 retail filling stations, consisting of 2,469 in Russia, 314 in the CIS (excluding Russia) and Georgia, 2,027 in Europe (including Balkan countries and Turkey) and 234 in the United States. Most of the stations operate under the LUKOIL brand.

We have one of the largest retail networks in Russia, where we own or lease 2,236 filling stations (as of 31 December 2019). We also have a network of 233 franchised stations in Russia (which sell our products exclusively). Our franchise programme includes rigid quality control requirements (including those relating to LUKOIL corporate specifications and designs). Our retail network also includes 46 tank farm facilities in Russia with a total capacity of 0.4 mmcm and 57 tank farm facilities outside Russia with a total capacity of 1.7 mmcm.

We sell our gasoline and diesel in Russia and in certain countries in Western and Eastern Europe under our EKTO brand, which is an acronym from the Russian words for “ecological fuel”. Since 2012, all of our refineries in Russia have exclusively manufactured Euro-5 compliant gasoline and diesel. In addition to automotive fuels, many of our retail filling stations provide car accessories and basic vehicle service, and increasingly offer goods such as fast food, convenience products and groceries.

The following table provides selected data on our retail filling stations.

As of 31 December 2019

	Russia	CIS and Europe	United States	Total
Owned / Leased Stations.....	2,236	1,631	217	4,084
Franchised Stations ⁽¹⁾	233	710	17	960
Total	2,469	2,341	234	5,044

(1) Stations owned by third-party dealers and subject to long-term contracts with pricing similar to retail pricing.

Outside Russia, we have retail operations in 18 countries: Azerbaijan, Uzbekistan, Belarus, Georgia, Moldova, Bulgaria, Finland, Italy, Serbia, Montenegro, Romania, Macedonia, Turkey, Belgium, The Netherlands, Croatia, Luxemburg and the United States.

Our optimisation programme in relation to our retail business is focused on achieving maximum integration with our own refineries, reducing costs and improving efficiency. As part of this optimisation process, in 2018, we completed a restructuring of the management system for our Russian filling station network by consolidating eight managing companies into four to improve control and cut costs.

Capital expenditures in our retail network in 2019 totalled RUB 4.2 billion in Russia and RUB 4.3 billion internationally.

Other Priority Marketing Channels

We promote petroleum products sales through priority high-margin channels.

Ship Bunkering

We have ship bunkering infrastructure in 25 sea and river ports in six regions of Russia and in Bulgaria and Romania. We operate mainly in ports on the Baltic Sea, the Barents Sea and the Black Sea, and on inland waterways. Our distribution structure enables service provision to customers in nearly all Russian seaports and inland waterways, as well as at locations outside Russia.

LUKOIL-Marine Bunker and LUKOIL-BUNKER, Group companies, carry out bunkering of ships at Russian sea and river ports, as well as making wholesale deliveries of ship bunker fuel. The companies have their own bunkering fleet and also lease modern tankers on a long-term basis. The fleet consists of 16 tankers and one barge with total deadweight of 55.8 thousand tonnes. Bunker fuel sales volumes in Russia in 2019 were 4.1 million tonnes.

LUKOIL-Bulgaria BUNKER, a Group company, is the major bunker supplier in Bulgaria, providing a full range of bunker fuels. LUKOIL-Bulgaria BUNKER has a fleet of two bunkering tankers with total deadweight of 2.8 thousand tonnes. Marine bunkering sales volumes outside Russia in 2019 were 0.2 million tonnes. The company supplies bunker fuels in Varna, Burgas, Rousse and Constanta.

Aircraft Refuelling

LUKOIL-AERO and LUKOIL Aviation Bulgaria EOOD, Group companies, supply jet fuel (mainly into-plane refuelling) at airports in Russia and abroad, respectively, using a network of our own subsidiaries or under contracts with third-party refuelling companies. The Group sold 3.4 million tonnes of jet fuel in 2019, including 2.1 million tonnes on retail (into-plane) basis. LUKOIL-AERO manages the allocation of all jet fuel produced at our Group refineries in Nizhny Novgorod, Volgograd and Perm. The main customers of LUKOIL-AERO are leading Russian and international airlines. In July 2018 as part of our 50/50 joint venture with the Moscow Sheremetyevo Airport, we opened a jet refuelling complex at the Moscow Sheremetyevo Airport, which has a capacity of 1.2 million tonnes per year and allows for simultaneous refuelling of up to 14 jumbo jets. In 2019, LUKOIL subsidiaries and affiliates provided into-plane refuelling at 33 airports in Russia, and five airports outside Russia (Bulgaria).

Branded Fuel

We promote our premium motor fuels under the EKTO brand. Since June 2017, we started selling our new EKTO-100 gasoline, which replaced EKTO-98. Total EKTO fuel sales volumes in Russia in 2019 were 7.8 million tonnes. In 2019, the share of EKTO fuel sales in our total retail sales of refined products in Russia was 79%, which is 2% more than in 2018. In 2019, EKTO fuel sales volumes outside Russia was 1.2 million tonnes.

Non-fuel goods and services

In addition to automotive fuels, many of our retail filling stations provide car accessories and basic vehicle service, and increasingly offer goods such as fast food, convenience products and groceries. Increasing non-fuel sales is an important part of our strategy in the retail business. In 2019, our gross profit from non-fuel sales was RUB 8.6 billion in Russia and RUB 6.5 billion abroad.

Lubricants

We produce lubricants and greases at eight of our own sites, within two joint ventures and at 25 contracted plants. Our Russian assets comprise full cycle lubricants production facilities at our refineries in Perm and Volgograd, a lubricant blending plant in Tyumen and joint venture with Russian Railways, INTESMO, producing greases in Volgograd. Our overseas production assets include our plants in Romania, Finland, Turkey and Austria, as well as the LLK-NAFTAN joint venture in Belarus, which produces additives. Additionally, in September 2019, we opened a new lubricant blending plant in the Almaty region of Kazakhstan.

In 2019, our total lubricant production (full cycle) and lubricant blending at all of our facilities was 963 thousand tonnes and 138 thousand tonnes, respectively. In 2019, we marketed lubricants and greases in over 100 countries.

Power Generation and Renewable Energy

Our power generation segment is represented by a fully vertically integrated chain, from generation to distribution of heat and power, to external consumers (commercial power generation) and for own needs (on-site power generation). Power generating facilities in our asset portfolio help strengthen vertical integration and support high associated petroleum gas utilisation rates, while also reducing electricity costs at our production facilities.

As of 31 December 2019, we had installed commercial electric capacity of combined heating plants and hydropower plants of 4.5 GW and installed commercial heating capacity of power plants and boiler plants of 8.1 Gcal/hour. We also had on-site supporting electric power capacity of 2.0 GW.

Our total commercial output of electrical energy was 18.3 billion kWh in 2019. We also produced 7.8 billion kWh in 2019, at our on-site supporting generating facilities.

Our power generation business sector is mainly comprised of LUKOIL-Volgogradenergo, LUKOIL-Kubanenergo, LUKOIL-Astrakhanenergo, LUKOIL-Rostovenergo, LUKOIL-Stavropolenergo, LUKOIL-Ecoenergo, our Rostov heating network, our on-site supporting facilities at our oil and gas fields in Russia and at our refineries in Russia and Bulgaria, and power generators in Romania.

Commercial Power Generation

Our core commercial power generating assets are located in Southern Russia, accounting for 93% of electricity generation in the Astrakhan Region and 60% of electricity generation in the Krasnodar Territory in 2019. In 2019, our commercial electricity generation output was 18.3 billion kWh. Our total output of heat energy was approximately 10.1 million Gcal in 2019.

Renewable Power Generation

Renewable power generating facilities also contribute to the Group's commercial power generation. LUKOIL-Ecoenergo owns four hydroelectric power plants ("HPPs") in Russia — the Tsimlyanskaya HPP in the Rostov region Belorechenskaya HPP and Krasnopolyanskaya HPP in the Krasnodar territory and Maykopskaya HPP in the Republic of Adygeya. The aggregate capacity of our hydroelectric power plants is approximately 291 MW, and they generated 868 million kWh of electricity in 2019. In 2019, we completed the renovation of Belorechensk HPP by installing two hydro generators with capacity of 24 MW each, increasing the overall capacity of the plant from 32 to 48 MW. This renovation is expected to extend the life of the plant by at least 40 years. LUKOIL-Ecoenergo is also engaged in renewable energy projects in the field of wind and solar energy internationally.

In 2015, we and the Italian ERG Renew signed an asset sharing agreement, according to which we consolidated a 100% interest in a wind farm in Romania (Land Power) with installed capacity of 84 MW. The wind farm produced 218 million kWh of electricity in 2019. The electric power from wind power plants in Romania is fed into the national power grid, and we receive tradable green certificates, which significantly enhance the economics of our renewable energy projects.

In addition, we operate a 9 MW solar power plant in Romania and a 1.3 MW solar power plant in Bulgaria, both built on vacant land within our refinery sites, and we commissioned a 10 MW solar power plant at our Volgograd refinery in 2018. In 2019, the electricity generation output of our solar power plants totalled 22.0 million kWh.

On-site Power Generation

We also operate on-site electricity generation at our fields and plants, with a total installed capacity of 1.9 GW as of 31 December 2019 and total electricity output of 7.5 billion kWh in 2019. In 2019, our in-house power generation accounted for 33% of the total electricity consumed by our Group for production purposes. These power generation facilities are located mostly in West Siberia and the Republic of Komi. We also have four gas turbine power generating units at the V. Filanovsky field in the Caspian Sea with installed capacity of 50 MW, and, in 2016 we commissioned “Usa” power generation unit with installed capacity of 100 MW for providing an independent power supply at the Usinskoye field and fields of the Denisovsky licence area in Timan-Pechora. In 2017, we launched “Yarega” power generation unit with installed capacity of 75 MW of electricity and 92 Gcal per hour of heat, which provides electricity and heat to the Yaregskoye field and the Ukhta refinery.

Transportation

Crude Oil Transportation

We use the Transneft pipeline system, our own pipeline network, other pipelines, rail cars and tankers to transport the crude oil we produce in Russia. In West Siberia, we transport most of our crude oil production with Gazprom and, in the Ural and Volga regions, through the Transneft pipeline system. Crude oil produced in Timan-Pechora is transported through the Transneft pipeline, as well as through our own pipeline to our Varandey terminal on the Barents Sea for further shipment to international markets. Most of the crude oil produced in North Caspian and Kazakhstan is transported through the CPC pipeline for further export by tankers.

Pipelines

Transneft. Most of our crude oil production is transported through the Transneft pipeline system. In 2019, we exported 168.6 mmbbls (23.0 million tonnes) of crude oil, or 61.8% of our total crude oil exports in 2019, via Transneft. Transneft is a state-owned pipeline monopoly. The Russian Government regulates access to Transneft’s pipeline network, and it is required to provide access on a non-discriminatory basis. Pipeline capacity, including export pipeline capacity, is allocated to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered to Transneft’s pipeline network in the prior quarter.

The FAS is responsible for setting Transneft’s tariffs. The tariffs tend to increase annually in ruble terms. The overall cost of transporting crude oil through the Transneft pipeline system depends on the location of the fields in relation to the ultimate destination (including the length of the transport route and whether deliveries are for export or for domestic consumption). See “*Regulation of the Oil Industry in the Russian Federation—Crude Oil and Refined Product Transportation Regime*” for more information on crude oil transportation.

The crude oil that we transport through the Transneft pipeline network is blended with crude oil of other producers that may differ in quality. Our sales of crude oil that we transport through the Transneft system are of the crude oil blend that results from the combination of different types and qualities of crude oil in the system, which is usually referred to as “Urals blend” crude oil. Therefore, the price we get for our oil may be lower than the price that we could get for our oil if we could transport it without blending. We export light crude oil through Transneft’s ESPO pipeline, which allows us to sell our light oil as “ESPO crude” (ESPO crude is sold at a premium to Urals blend). We exported 1.7 million tonnes of light crude oil through the ESPO pipeline in 2019.

At LUKOIL-West Siberia’s Uraineftegas production unit, we transport a high quality light low-sulphur crude oil directly from the production facilities to the Black Sea port of Novorossiysk via a dedicated Transneft pipeline network. This allows us to avoid the blending which occurs in the main Transneft system. The blend of light West-Siberian crudes is also transported to our Volgograd Refinery.

We also use a pipeline system we built in Timan-Pechora, linking our fields to our Varandey terminal on the Barents Sea. This enables us to achieve higher export netback prices (which are the prices we achieve for exports, minus export duties and transportation costs) from sales of crude oil produced in Timan-Pechora. This pipeline system is also used to export crude oil produced by the Bashneft-Polyus joint venture (in which we hold a 25.1% interest), which is developing the Trebs and Titov oil fields.

See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge*” for more information about the risks related to our transportation of crude oil through the Transneft pipeline system.

Caspian Pipeline Consortium. LUKARCO, our wholly-owned subsidiary, has a 12.5% interest in the CPC pipeline, which is a 1,511-kilometre (932-mile) oil pipeline connecting oil fields in West Kazakhstan to the CPC’s marine export terminal at the Black Sea port of Novorossiysk in Russia. Other parties involved in the CPC are the Russian Government (24%), the Kazakh Government (19%), Chevron (15%), Rosneft-Shell Caspian Ventures (7.5%), Exxon Mobil (7.5%), CPC Company (Russia) (7%), Eni (2%), BG Group (2%), Kazakhstan Pipeline Ventures (1.75%) and Oryx (1.75%). The pipeline has a capacity of approximately 1.35 million bpd (67.0 million tonnes per year). In 2019, we transported 5.3 million tonnes of crude oil through the CPC pipeline. Crude oil produced from several of our projects, including our Karachaganak, Kumkol, Tengiz and our projects in the North Caspian, is transported to the CPC terminal at Novorossiysk through the CPC pipeline.

The CPC operates a “quality bank” system, under which exporters who supply high-quality hydrocarbons receive a price premium, and those who supply lower-quality hydrocarbons receive a price discount, to the average blend transported through the CPC pipeline. The blend of oil transported through the CPC pipeline is referred to as “CPC blend,” the price for which is quoted separately usually with a premium over Urals blend.

Crude oil from our projects in the North Caspian is transported via subsea pipeline to onshore storage facilities and subsequently fed into the CPC pipeline for further export. The “quality bank” system allows us to obtain a premium relative to the Urals blend for the quality of the crude oil produced at the North Caspian.

Terminals

We own and operate a permanent sea terminal at Varandey on the Barents Sea with the capacity to receive and reload up to 240,000 bpd (12.0 million tonnes per year). The project includes a stationary, ice-resistant loading terminal at sea, an underwater pipeline, a system of onshore reservoirs and an offshore transshipment base. We currently transport crude oil to the terminal by pipeline, and we ship crude oil from the terminal with ice-breaking shuttle tankers through the Barents Sea to a floating reservoir in the ice-free waters near Murmansk. The crude oil is then loaded onto long distance tankers, which transport it to international markets. The Varandey terminal is also used to export crude oil produced by the Bashneft-Polyus joint venture (in which we hold a 25.1% interest), which is developing the Trebs and Titov oil fields.

We have a terminal located in Vysotsk, Vyborg’s outer harbour on the Baltic Sea. The current capacity of the terminal is 0.3 million bpd (15.0 million tonnes per year), and it can handle crude oil, fuel oil, vacuum gas oil and diesel. We transport refined products to the terminal by using the pipeline system “Primorsk-Vysotsk”.

We own an export terminal at the port of Svetly in the Kaliningrad region (with a total capacity of 4.0 million tonnes per year). The Svetly terminal primarily exports crude oil produced by OOO LUKOIL-Kaliningradmorneft, our subsidiary operating in the Kaliningrad region, as well as refined products.

In addition, our 50/50 Spanish joint venture has an oil product terminal (with a total capacity of 5.0 million tonnes per year and total reservoir capacity of 360 mcm) in the port of Barcelona, Spain.

Furthermore, we have a terminal for the transshipment and storage of bulk lubricants in Vienna, Austria, including a reservoir park and a mooring facility for river supplies of base oils to streamline our supply chain and reduce transportation costs.

In addition, the Zeeland refinery that we manage together with Total S.A. owns a minority interest (16.7%) in the Maasvlakte Oil Terminal in Rotterdam.

Gas Transportation

In Russia, we mainly sell our natural gas at the wellhead. Gas that is not sold at the wellhead is transported through the UGSS, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. Under Russian law, Gazprom is obliged to provide third-party access to the UGSS as long as there is spare transport capacity at the relevant time and place requested, the proposed gas shipments meet established quality and technical standards, input and output connections and quality control stations are available and customer demand exists at the relevant time. However, historically, Gazprom has been able to deny third-party gas producers access to the UGSS, citing a lack of spare capacity. See

“Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We face several risks in connection with the implementation of our strategy to develop our natural gas operations”.

We have a strategic partnership agreement with Gazprom through 2024 pursuant to which Gazprom offtakes gas produced by our Group, including gas produced in the Bolshekhetskaya depression and in the North Caspian.

Refined Products Transportation

To deliver our petroleum products to customers we utilize various transportation options including railway, pipeline, ships and trucks. In 2019, 46% of our refined products produced at our refineries in Russia and delivered for export was shipped by railway transport, approximately 48% through the pipeline system of Transneft, and the remaining 6% by inland waterways.

To reduce our transportation costs, we cooperate with Transneft and participate in Transneft’s projects to transport more of our refined products through the Transneft pipeline system. In June 2017, we started transporting gasoline from our Nizhny Novgorod refinery to the Novoselki tank farm in the Moscow region through Transneft pipelines. Moreover, in December 2017, we started carrying diesel produced at our Volgograd refinery through the pipeline system “Project South” operated by Transneft with installed capacity of 8.7 million tonnes per year. We pay transportation fees to Transneft in order to transport our refined products through the Transnefteproduct network. The FAS is responsible for setting tariffs for the use of the Transnefteproduct network, which tend to increase annually in ruble terms.

Corporate and Other

We divested our diamond business in May 2017 with the sale of our 100% interest in a company developing the Vladimir Grib diamond field in the Arkhangelsk region of Russia for the ruble equivalent of \$1.45 billion. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Changes in the Group Structure”* for more information on this divestment.

Our other businesses include, *inter alia*, transportation, rental and crude oil extraction services

Competition

The oil and gas industry is intensely competitive. We compete with other major Russian and international oil and gas companies. Many of our international competitors have substantially greater financial resources and have been operating in a market-based, competitive economic environment for much longer than we have.

The key activities in which we face competition are:

- acquisition of exploration and production licences at auctions or tenders conducted by governmental authorities;
- acquisition of other companies which may already own licences or existing hydrocarbon producing assets;
- participation in international projects for prospecting and exploration and development of oil and gas fields;
- engagement with third-party service providers whose capacity to provide key services may be limited;
- purchase of capital equipment that may be scarce;
- employment of qualified and experienced personnel;
- access to critical transportation infrastructure;
- acquisition of existing retail outlets or of sites for new retail outlets; and
- marketing and sale of crude oil, oil products and gas.

Rosneft is our primary competitor in Russia. In October 2016, Rosneft acquired a controlling stake in PJSOC Bashneft, which substantially increased its production volumes. See *“Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We compete with other oil and gas companies in all areas of our operations, including the acquisition of licences, exploratory prospects and producing properties and we may*

encounter competition from suppliers of alternative forms of energy sources” for more information about the risks related to our ability to compete effectively with Russian and international oil and gas companies.

The oil and gas industry is subject to a number of influences which impact the industry’s competitive landscape, including consolidation and deceleration of demand growth for certain products. Our ability to remain competitive requires, among other things, management’s continued focus on reducing unit costs and improving efficiency, maintaining long-term growth in our operational indicators, including through continued technological innovation and our ability to capture new opportunities.

In addition to intense competition, oil and gas companies are also facing increasing demands to conduct their operations in a manner consistent with environmental and social goals. Investors, customers and governments are more actively following the oil industry’s performance on human rights and environmental responsibility, including the request to adequately react to the climate change issue.

As a result of these influences and other factors, we expect competition to intensify.

Credit Ratings

We are currently rated by three rating agencies: Moody’s, Fitch and Standard & Poor’s. Our ratings as of the date of this prospectus are as follows:

<u>Moody’s</u>	<u>Fitch</u>	<u>Standard & Poor’s</u>
Baa2	BBB+	BBB
OutlookStable	Outlook Stable	Outlook..... Stable

The notes are expected to be assigned a rating of BBB+ by Fitch and BBB by Standard & Poor’s.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the notes. The ratings do not address the marketability of the notes or any market price. Any change in the credit ratings of the notes or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the notes. We recommend that you analyse the significance of each rating independently from any other rating. Each of Moody’s, Fitch and Standard & Poor’s is established in the EEA and is registered under the CRA Regulation. As such, each of Moody’s, Fitch and Standard & Poor’s is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Environment, Health and Safety

Sustainable development

We are guided in our business by the principles of sustainable development and try to maintain a balance between socio-economic and ecological development. In 2008, we joined the United Nations Global Compact, a voluntary initiative to facilitate sustainable development and encourage business to adopt socially responsible policies. Our strategic priority objectives include the creation of a safe working environment for our employees, health protection of our personnel and local communities and environmental protection. As part of these objectives, we adopted a Health, Safety and Environment Management System in 2001 (our “**HSE Management System**”), which includes compliance with fire safety and emergency response requirements in accordance with applicable Russian law and is based on the best Russian and international practices. Our HSE Management System has been certified for compliance with ISO 14001 and OHSAS 18001 environmental, health and safety standards.

Additionally, our HSE Management System is transitioning to the new ISO 45001 standard, which is replacing OHSAS 18001, following its publication in 2018.

Our Health, Safety and Environment Policy sets forth the following long-term goals:

- increase the utilisation ratio of associated petroleum gas;
- apply the zero-discharge principle for developing offshore fields;
- increase the output of eco-friendly fuels compliant with the European standards;
- efficiently utilise natural resources, through the introduction of resource-saving and energy efficient technologies and the use of alternative energy sources;
- consistently mitigate negative environmental impacts through the introduction of best-available technologies, equipment and materials, as well as through improved automation of engineering process management;
- mitigate the impact of Group company operations on the climate and on the biological diversity of environmentally sensitive territories, including the Arctic zone of the Russian Federation;
- improve health, safety and the environment through the increased reliability of process equipment, including pipeline integrity, its safe and uninterrupted operation, as well as the introduction of new technologies and automated accident-prevention systems;
- ensure the preparedness of the our management, organisations, employees, emergency rescue services and teams for potential accidents, fires and other situations requiring emergency-response measures;
- improve the development and implementation process of existing and new programmes;
- mitigate the man-made environmental impact of newly commissioned facilities through the improved quality of our pre-design and project documentation; and
- improve efficiency of production control, corporate supervision and internal audit in terms of compliance with the legislative health, safety and environment requirements at facilities of Group organisations based on the introduction of cutting-edge IT, methods of engineering diagnostics and remote monitoring in line with the international standards ISO 14001 and OHSAS 18001.

Environment

Our operations are subject to a number of environmental laws and regulations in Russia and each of the other countries in which we operate. These laws govern, among other things, air emissions, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As with our competitors, environmental liability risks are inherent in our operations. We have environmental liabilities due to past activities, which have caused pollution of land, disturbance to land and generation of waste oils, sludge and drill cuttings. Additionally, we also have long-term obligations concerning the decommissioning of operational facilities and the remediation of soil or groundwater at certain of our facilities and liability for waste disposal. Our shipping and other transportation operations are also subject to extensive environmental and other regulations, and our products are subject to various consumer protection laws.

Set forth below are key indicators of our environmental impact in Russia for the years ended 31 December 2019, 2018 and 2017.

	2019	2018	2017
Air emissions, <i>thousand tonnes</i>	403	433	503
Water consumption for operational needs, <i>mmcm</i>	335	355	376
Discharge of contaminated (untreated and insufficiently treated) wastewater, <i>mmcm</i>	10.7	0.9	1.1
Production waste disposal and landfill, <i>thousand tonnes</i>	1,646	1,582	1,396
Area of contaminated lands as at the end of the period, <i>hectares</i>	43	59	60
Number of accidents with environmental damage.....	38	43	42

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Hazardous waste (hazard Classes 1, 2 and 3 according to the respective environmental hazard classification) as at the end of the period, <i>thousand tonnes</i>	21	23	23

We have undertaken significant efforts and have made significant expenditures to comply with environmental regulations. However, additional financial reserves or compliance expenditures could be required in the future due to changes in law, new information on environmental conditions or other unforeseen events, and those expenditures could have a material adverse effect on our business, financial condition or results of operations.

Russian legislation provides a basis for requiring those violating environmental regulations to remediate any environmental damage such violations have caused. Environmental authorities may impose fines for breaches of environmental and sanitation standards, and compensation may also be payable for any damage caused. We are committed to a long-term proactive policy to address environmental concerns and actively pursue policies which are designed to reduce pollution and its effects.

We allocate funds in the amounts necessary to minimise risks of environmental loss and to comply with all pertinent environmental regulations. Although our operating and capital expenditures on the prevention, control, abatement or elimination of air, water and solid waste pollution are often not incurred as separately identifiable transactions, they often form a part of larger transactions, such as normal maintenance expenditures. We also create provisions for future environmental remediation. We believe our provisions are sufficient, based upon known requirements, and we do not believe that our costs will differ significantly from those of other companies engaged in similar industries, or that our competitive position will be adversely affected as a result.

We consider environmental protection to be a top priority and have implemented a zero discharge principle at our offshore facilities. This principle is based on a total ban on the discharge of sewage water and waste generated by our operations into the marine environment. The sewage water and waste is collected in sealed containers and taken onshore for safe disposal and recycling. We follow the zero discharge principle in the course of our exploratory drilling and in operating discovered fields, and we have conducted numerous research expeditions and ecological monitoring in every region of our operations, which have demonstrated the success of our observance of the zero discharge principle in containing pollution. In addition, we maintain complex monitoring of oil pollution in the Baltic, Caspian and Barents seas. We receive detailed information on oil pollution of the sea, sea surface temperature, distribution of suspended matter, chlorophyll concentration, sea currents and meteorological parameters, and no spills of oil or petroleum products have been registered at our facilities in these regions. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations*”.

Climate

Starting in 2005, we have been actively managing GHG emissions based on our own voluntary initiative. In 2016, we set our first mid-term absolute target to reduce Scope 1 emissions across our Russian organisations by 1.2% by 2020 as compared to 2016. As of 2019, the actual reduction was 3.3% compared to the 2016 level. Our overall volume of GHG emissions in Russia was 30.3 million tonnes of carbon dioxide equivalent in 2019. In 2019, a decision was made to start working on setting further goals to reduce GHG emissions overall for the Group, including our international operations.

We approved and started implementing various programmes for efficient associated petroleum gas use, power safety, modernisation of refineries and power stations, as well as a programme on development of renewable energy sources which, among other things, are aimed to reduce GHG emissions.

The programme for efficient associated petroleum gas use is part of our LUKOIL environmental safety programme and has been in place at our Russian entities since 2013. As of 2019, we increased associated petroleum gas use to 97.6% (compared to 88.0% in 2013) through building and renovating gas pre-treatment, transportation, and processing facilities.

In 2017, we joined the World Bank's Zero Routine Flaring by 2030 initiative, which was announced to pool the efforts of governments, oil companies and non-governmental organisations to increase beneficial associated

petroleum gas use. In 2019, we approved the programme on rational utilisation of associated petroleum gas for 2019-2021 for further reduction of flaring.

We are also involved in renewable power generation. The aggregate capacity of our renewable power plants is approximately 395 MW and they contributed 6% to our overall commercial power generation in 2019 and contributed to lower GHG emissions. In February 2018, we commissioned a 10 MW solar power plant at the Volgograd refinery, which allows us to eliminate 10,000 tonnes of carbon dioxide emissions per year. In 2019, we completed the renovation of Belorechensk HPP by installing two hydro generators with capacity of 24 MW each increasing the overall capacity of the plant from 32 MW to 48 MW.

Health and Safety

Ensuring safe and decent working conditions for our employees is a priority of our Group. We hold regular safety drills and training sessions for employees of our Group at sea and river terminals and at production, refining and storage sites, to ensure that our Group’s special teams and equipment remain in a high state of readiness to deal with any oil or petroleum product leakages. Our on-site trainings involve both our employees and the employees of our contractors that are present at the site during such exercises. As of 31 December 2019, more than 97,000 Group employees and employees of our contractors have participated in drills and passed training sessions.

Set forth below are key indicators of occupational injuries involving our employees in Russian and outside Russia for the years 2019, 2018 and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Number of accidents.....	19	21	20
Number of injuries.....	25	23	22
Number of fatalities.....	2	1	4
Lost time accident frequency rate.....	0.19	0.20	0.19

In October 2017, a fire at our Nizhny Novgorod refinery resulted in fatal injuries to four employees of a third-party organisation that provided construction works at our motor fuel reservoir. The Russian natural resources supervisory authority conducted an investigation into the cause of the fire and found that it was caused by a breach of environmental protection rules by the third-party organisation. In 2018, a fatality occurred at our Kiyazlinskoye oil field operated by our subsidiary, RITEK, in Tatarstan, which was caused by a work safety violation while pumping melt water from a dewatering well. The subsequent investigation resulted in a revision of local policies related to similar activities, extraordinary briefings, personnel tests, targeted inspections and upgrade of drainage wells with additional devices to procure work safety. In 2019, we had two fatal accidents. The first was during a robbery against a gas station operator in the Veronezh region. The second fatality was from an accident at our facilities in Perm.

In January 2020, a fire in our Ukhta refinery, which was caused by a breach of technological process for piping additive agents for gasoline to technical reservoirs, resulted in one injury. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We are exposed to potential losses and liabilities arising from operational catastrophes, fires or industrial accidents*”.

In addition to our own health and safety protection measures, we have also introduced measures to check our potential contractors for compliance with health and safety protection requirements in order to reduce the number of incidents that occur due to contractor fault. We are currently working on implementing a remote control system with respect to industrial safety at our production facilities, and we continue to cooperate with Russian state authorities to improve regulations regarding professional emergency responses to oil spills and gas eruptions.

Employees

We had an average of 101,374, 102,508 and 103,647 employees in 2019, 2018 and 2017, respectively. We believe that our relations with our employees are satisfactory.

We aspire to a system of human resource management that matches best global practices. We continue to work on the optimisation of our organisational structure, the elimination of inefficient lines of reporting and duplicative management functions, establishing systems of unified and standard functions and focusing on educating and implementing training programmes for our employees. Staff appraisal and youth employment are of central importance for efficiency management at our Group. We utilise “appraisal and development centre” technology and conduct detailed annual employee appraisals. Since 2008, LUKOIL has been the official representative of the

Russian Union of Industrialists and Entrepreneurs in the Tripartite Commission for Regulation of Social and Labour Relations, which is the most senior partnership organisation acting under the Labour Code of Russia. Since 2012, LUKOIL has cooperated with the International Labour Organisation (the “ILO”) in the area of youth employment. In May 2017, LUKOIL and the ILO signed a cooperation agreement with respect to youth employment in Russia, Azerbaijan, Kazakhstan and Uzbekistan for the period of 2018-2022.

Our Russian subsidiaries are party to various collective bargaining agreements with local trade unions. LUKOIL is also a party to an agreement with a trade union, which covers all of our Group’s Russian entities. The current agreement is valid through the end of 2020. It is anticipated that in 2020, it will be extended for a new term. We believe that these various agreements preserve a high level of social and labour-related benefits for our company and that the social benefits guaranteed by such agreements represent some of our industry’s best benefits available.

Considering the importance of human rights, ethical conduct in stakeholder engagement and other aspects of business ethics, in 2018, we drafted and approved a new version of our Code of Business Conduct and Ethics. This code covers major ethics aspects of relations between personnel of Group companies as well as relations with shareholders, government bodies, business partners, competitors and customers.

We also strive to cooperate with local communities to create jobs, provide training and education for local personnel and sponsor charitable activities and social programmes in such areas as sport, culture, science, education, environment and healthy life. For example, we are cooperating with local universities and Uzbekneftegaz to establish a specialty training system in Uzbekistan in order to prepare candidates for work in the oil and gas industry, including our Kandym gas processing plant in the country. In 2018, we committed to creating a training centre at Kogalym involving the Perm National Research Polytechnic University that aims to improve the professional competence of graduates through practical training.

Insurance

The insurance industry in the Russian Federation and certain other areas where we have operations is still developing. Our management believes that we have adequate property damage coverage for our main production assets. In respect of third-party liability for property and environmental damage arising from accidents on our property or relating to our operations, we have insurance coverage that is generally higher than insurance limits set by local legal requirements. Our management believes that we have adequate insurance coverage of the risks which could have a material effect on our business, financial condition or results of operations. However, there is a risk that we may not have adequate insurance coverage. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We do not carry insurance against all potential risks and losses and our insurance might be inadequate to cover all of our losses or liabilities*”.

MANAGEMENT

Members of the Board of Directors and the Management Committee

The current members of our Board of Directors are as follows:

<u>Name</u>	<u>Position at LUKOIL</u>	<u>Date of birth</u>
ALEKPEROV, Vagit Yusufovich	Director, President and Chairman of the Management Committee	1 September 1950
BLAZHEEV, Victor Vladimirovich	Independent Non-Executive Director	10 January 1961
FEDUN, Leonid Amoldovich	Director, Vice President for Strategic Development	5 April 1956
GATI, Toby Trister	Independent Non-Executive Director	27 July 1946
KHOBBA, Lyubov Nikolaevna	Non-Executive Director	19 January 1957
MAGANOV, Ravil Ulfatovich	Director, deputy Chairman of the Board of Directors, First Executive Vice President for Upstream and member of the Management Committee	25 September 1954
MUNNINGS, Roger	Independent Non-Executive Director	3 August 1950
SHATALOV, Sergei Dmitrievich	Independent Non-Executive Director	2 January 1950
SCHÜSSEL, Wolfgang	Independent Non-Executive Director	7 June 1945
TEPLUKHIN, Pavel Mikhailovich	Independent Non-Executive Director	29 April 1964

The current members of our Management Committee who are not members of our Board of Directors and our senior management are as follows:

<u>Name</u>	<u>Position at LUKOIL</u>	<u>Date of birth</u>
DOLGOV, Denis Viktorovich	Vice President for Energy	17 September 1974
FEDOTOV, Gennady Stanislavovich	Vice President for Economics and Planning	7 October 1970
KHAVKIN, Evgeny Leonidovich	Vice President and Chief of Staff of the Company	1 January 1964
MANDRIK, Ilya Emmanuilovich	Vice President for Exploration and Development	18 May 1960
MASLYAEV, Ivan Alexeyevich	Vice President and General Counsel	21 May 1958
MATYTSYN, Alexander Kuzmich	First Vice President	7 August 1961
MOSKALENKO, Anatoly Alekseyevich	Vice President for Human Resources Management and Social Policy	31 May 1959
PASHAEV, Oleg Davidovich	Senior Vice President for Sales and Supplies	13 July 1967
ROGACHEV, Denis Vladimirovich	Senior Vice President for Overseas Oil and Gas Production	11 May 1977
SHAMSUAROV, Azat Angamovich	Senior Vice President for Oil and Gas Production – Russia	11 April 1963
VERKHOV, Viacheslav Anatolievich	Chief Accountant	1 September 1972
VOROBYOV, Vadim Nikolaevich	First Vice President	16 April 1961

The business address of our directors and members of our Management Committee is 11 Sretensky Boulevard, Moscow 101000, Russian Federation, which is our registered address.

Director Biographies

Vagit Yusufovich Alekperov

Mr. Alekperov has served as our President and as the Chairman of our Management Committee since 1993. He has also served as a member of our Board of Directors since 1993 and as the Chairman of the Supervisory Board of LUKOIL INTERNATIONAL since 2001. Since 2007, Mr. Alekperov has served as the Chairman of the Board of the Regional Social Programmes Fund “Our Future,” and since 2006, he has been a member of the administrative bureau of the Management Board of Russian Union of Industrialists and Entrepreneurs. From 1993 to 2000, he also served as the Chairman of our Board of Directors. From 1990 to 1991, he served as Deputy Minister and then First Deputy Minister of the Ministry of Oil and Gas of the Soviet Union. In 1974, Mr. Alekperov earned a degree in engineering from the Azizbekov Institute of Oil and Chemistry in Azerbaijan. He also holds a doctorate degree in economics and is a fellow of the Russian Academy of Natural Science.

Victor Vladimirovich Blazheev

Mr. Blazheev has served as a member of our Board of Directors since 2009. He also serves as the Chairman of our Audit Committee and as a member of our Human Resources and Compensation Committee. Since 2007, he has acted as Rector of Moscow State University of Law named after O.E. Kutafin. From 1994 to 2007, he was a lecturer and administrator occupying various positions at Moscow State University of Law. Mr. Blazheev graduated from the All Union Extramural Law Institute (“**AELI**”) in 1987 and completed a post-graduate programme at AELI/ Moscow Law Institute in the department of civil litigation in 1990. He holds a PhD degree in law.

Leonid Arnoldovich Fedun

Mr. Fedun has served as a member of our Board of Directors and member of our Strategy, Investment and Sustainability Committee since 2013. He has also been Vice President on Strategic Development of LUKOIL since 2012, and before that, from 1994 to 2012, he was Vice President and Head of the Department of Strategic Development and Investment Analysis of LUKOIL. From 1993 to 1994, he was General Director of OAO LUKoil-Consulting. From 2004 to 2014, Mr. Fedun was the Chairman of the Board of Directors of OAO Bank Petrocommerce. From 2003 to 2017, he was the Chairman of the Board of Directors of ZAO IFD Kapital. Mr. Fedun has been a member of the Board of the Charity Fund for Social Programme Support of the IFD Kapital since 2013, the Chairman of the Board of Directors of AO Football Club Spartak-Moscow since 2004 and the Chairman of the Board of Spartak-Moscow’s Football Club Veterans and Youth Giving Fund since 2008. From 2008 to 2017, he was a member of the Board of Directors of ZAO Management Group. From 2012 to 2016, he was a member of the Board of Directors of OOO Liga-TV. Mr. Fedun has also been a board member of the Social Programmes Target Support Fund since 2008, a member of the management board of Russian Union of Industrialists and Entrepreneurs (All-Russia Public Association) since 2006 and a member of the management board of Russian Union of Industrialists and Entrepreneurs (All-Russia Association of Employers) since 2006. Mr. Fedun graduated from the M.I. Nedelin Higher Military Command School in Rostov in 1977 and holds a PhD degree in Philosophical Sciences.

Toby Trister Gati

Mrs. Gati has served as a member of our Board of Directors and member of our Strategy, Investment and Sustainability Committee since 2016. Mrs. Gati served as Senior International Advisor at Akin Gump Strauss Hauer & Feld LLP from 1997 to April 2016. She has been a member of the Board of Directors of the U.S.-Russia Business Council (“**USRBC**”) since 2008. Mrs. Gati has served as President of TTG Global LLC since April 2016. She is also an expert in the Valdai Discussion Club. Mrs. Gati received a Bachelor of Arts in Russian Literature and Language in 1967 from Penn State University, a Master of Arts in Russian Literature from Columbia University in 1970 and a Master of International Affairs and a certificate from the Harriman Institute, Columbia University in 1972.

Lyubov Nikolaevna Khoba

Mrs. Khoba has served as a member of our Board of Directors since 2017. She was our Chief Accountant from 1993 to February 2018 and a member of our Management Committee from 1993 to 2017. Since 2012, Mrs. Khoba has also served as Chairman of the Supervisory Board of LUKOIL Accounting and Finance Europe s.r.o. Since 2019, Mrs. Khoba has been a member of the Board of Trustees of the National Organization for Financial Accounting and Reporting Standards Foundation. From 2000 to 2019, she was a member of the Supervisory Board of LUKOIL INTERNATIONAL. From 1991 to 1993, she served as a chief accountant of Production Association Kogalymneftegaz. In 1992, Mrs. Khoba earned a degree in accounting and business analysis from the Sverdlovsk Institute of National Economy. She also holds a PhD degree in economic sciences. Mrs. Khoba is the wife of Mr. Matytsyn, our First Vice President.

Ravil Ulfatovich Maganov

Mr. Maganov has served as a member of our Board of Directors and Management Committee since 1993 and as deputy Chairman of our Board of Directors since 2016. He has also served as a First Executive Vice President for Upstream since 2006. Mr. Maganov is a member of our Strategy, Investment and Sustainable Development Committee. Mr. Maganov has served as a member of the Supervisory Board of LUKOIL INTERNATIONAL since 2000. From 2012 to 2015, he also was Chairman of the Supervisory Board of LUKOIL Overseas Holding GmbH (which was reorganised in 2015). He was also the Chairman of the Board of Directors of LUKOIL Overseas Holding Ltd. from 2008 to 2013. Mr. Maganov served as our First Vice President from 1994 to 2006 and as our Vice President from 1993 to 1994. He also served as the General Director of AOOT LUKOIL-Langepasneftegas, one of our subsidiaries, from May to November of 1993. Mr. Maganov worked in several capacities for Langepasneftegas from 1988 to 1993, including as General Director from 1991 to 1993. In 1977,

he earned a degree in engineering from the I.M. Gubkin Moscow Institute of the Oil and Gas Industry.

Roger Munnings

Mr. Munnings has served as a member of our Board of Directors since 2015. He also serves as the Chairman of our Human Resources and Compensation Committee. Mr. Munnings has been the Chairman of the Board of the Russo-British Chamber of Commerce since 2012, and a member of the Board of Directors of PAO GMK Norilsk Nickel since 2018. Previously, he was Chairman of KPMG's Global Energy and Natural Resources Practice from 1993 to 2008, President and Chief Executive Officer of KPMG Russia / CIS from 1996 to 2008 and a member of KPMG's International Council (the senior governance body of the audit, accounting and advisory firm) from 1998 to 2008. He has been a member of the Board of Directors of Sistema JSFC, a Russian-based investment company, since 2010 and was a member of the Board of Directors of JSC SUEK, a Russian-based coal mining company, from 2012 to 2013. He has been the Chairman of the Russo-British Chamber of Commerce since 2012. Currently, he serves as a member of the Russian National Council for Corporate Governance, the Russian Institute of Directors, and the Russian Union of Industrialists and Entrepreneurs. Mr. Munnings received a Master's Degree in Philosophy, Politics and Economics from the University of Oxford in 1972, and he is a fellow of the Institute of Chartered Accountants in England and Wales.

Sergei Dmitrievich Shatalov

Mr. Shatalov has served as a member of our Board of Directors and a member of the Audit Committee and the Chairman of the Strategy, Investment and Sustainability Committee of our Board of Directors since 2019. In addition, since 2018 Mr. Shatalov has been a member of the Board of Directors of OOO Avtotor Holding and Chief Research Associate of FGBU Research and Development Financial Institute. Since 2016 he has been a member and the Chairman of the Audit Commission of JSC MSP Bank. From 2016 to 2018, Mr. Shatalov served as Vice President of LLC Aktion-MTsFER media group and a member of the Board of Directors of Bashkir Soda Company. Also, Mr. Shatalov was the deputy minister of finance of Russia from 1995 to 1998 and from 2000 to 2016, and director of the Tax Department of ZAO Pricewaterhouse Coopers Audit from 1998 to 2000. From 1993 to 1995, Mr. Shatalov was the director of the tax department of JSC Center for Foreign Investments and Privatization, and from 1990 to 1993, he was a member of the Supreme Council of the Russian Federation. Mr. Shatalov received a degree in Mathematics from the Zhdanov Leningrad State University in 1972 and is has a PhD in physics and mathematics and a doctor degree in economics.

Wolfgang Schüssel

Mr. Schüssel has served as a member of our Board of Directors since 2019. He is also Chairman of the Board of Trustees of Konrad Adenauer Stiftung since 2015, President of the Foreign Policy and United Nations Association of Austria (UNA-Austria) since 2008, Member of the Supervisory Board of RWE AG since 2010. In addition, since 2014 Mr. Schüssel has served as a member of the Board of Trustees of the Allensbach Institute for Public Opinion Research (*Institut für Demoskopie Allensbach*), and since 2013, he has served as President of the United Europe association. Mr. Schüssel served as a member of the Board of Directors of PJSC MTS from 2018 to 2019, and a member of the Board of Trustees of Bertelsmann Foundation from 2007 to 2016. From 2000 to 2007, he was Federal Chancellor of the Republic of Austria, and from 1995 to 2007 – the chairman of the Austrian People's Party. Mr. Schüssel also served as Vice Chancellor and Federal Minister for Foreign Affairs of the Republic of Austria from 1995 to 1999, and the Minister for Economic Relations of the Republic of Austria from 1989 to 1995. Mr. Schüssel received a degree from the Vienna University in "economics and law" and holds a doctoral degree.

Pavel Mikhailovich Teplukhin

Mr. Teplukhin has served as a member of our Board of Directors and a member of the Audit Committee of our Board of Directors since 2019. He has also served as a member of the Board of Directors of AO RUSNANO since 2013 and President of OOO Matrix Advisors since 2017. He also served as the Russian Chief Country Officer of Deutsche Bank AG from 2012 to 2016. From 2010 to 2013, he served as a member of the Supervisory Board of OAO VTB, and from 2008 to 2015, he served as a member of the Supervisory Board of the World Trade Center. In 1989, he graduated from the Lomonosov Moscow State University, Faculty of Economics, and received a Ph.D. in Economics in 1989. In 1993, he received a Master of Science in Economics at the London School of Economics.

Potential Conflicts of Interest

Except for certain interested party transactions disclosed in "*Additional Information Regarding the Company—Certain Interested Party Transactions*", there are no potential conflicts of interest between any duties of the members of the Board of Directors or the Management Committee of LUKOIL towards either LUKOIL or the

Issuer and their private interests and/or other duties.

Additional Information About Our Directors

Interests of the Directors in Our Share Capital

The aggregate percentage of shares in LUKOIL which each director directly or indirectly owns, or is a beneficiary of (including through his or her closely associated persons and trusts, funds and other investment vehicles), the existence of which is known to such director, including through the exercise of reasonable diligence, whether or not such interests are held through another party, as of 31 March 2020, which is the most recent practicable date prior to the date of this prospectus, were as follows:

<u>Name of Director</u>	<u>Interest</u>
Vagit Yu. Alekperov	28.22 ⁽¹⁾ %
Victor V. Blazheev	-
Leonid A. Fedun.....	9.28 ⁽²⁾ %
Toby T. Gati	-
Lyubov N. Khoba.....	0.44%
Ravil U. Maganov	0.47%
Roger Munnings.....	-
Sergei D. Shatalov.....	-
Wolfgang Schüssel	-
Pavel M. Teplukhin	-

⁽¹⁾ As of 31 March 2020, the aggregate percentage of shares in LUKOIL which Mr. Alekperov directly owns, or is a beneficiary of (including through family trusts and mutual funds), is 28.22%. Mr. Alekperov directly owns 3.11%, and is a beneficiary (including through family trusts and mutual funds) of 25.11%, of the shares in PJSC “LUKOIL”.

⁽²⁾ As of 31 March 2020, the aggregate percentage of shares in LUKOIL which Mr. Fedun directly and/or indirectly owns, and/or is a beneficiary of, is 9.28%.

Each of the other members of our Management Committee who are not members of our Board of Directors owned less than 1% of our share capital as of 29 October 2019. See “*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry— Certain insiders directly or indirectly own, or are beneficiaries of, significant amounts of shares in LUKOIL, which may allow them to exercise material influence over our management and business*”.

Director and Management Compensation

Our shareholders determine the compensation of our directors at each annual shareholders meeting. In November 2016, our Board of Directors approved the Board of Directors Compensation and Expense Remuneration Policy of LUKOIL, which was amended in December 2017. In addition to fixed annual remuneration, board members receive extra remuneration for (i) serving as the Chairman of our Board of Directors or as the chairman or a member of a committee of our Board of Directors, (ii) attending meetings of the Board of Directors and its committees in person if it requires a transcontinental flight and (iii) participation in conferences and other events at the written request of the Chairman of the Board of Directors. Remuneration and reimbursements payable to our board members are determined by a decision taken at our general shareholders meeting.

In November 2016, the Board of Directors approved the Regulations on LUKOIL Management Remuneration and Incentive System, which was further amended in 2018, 2019 and 2020. Remuneration of the Management Committee members consists of the following components:

- basic remuneration (salary as set out in the relevant employment contract);
- remuneration as set out in the relevant contract relating to service on the Management Committee;
- annual incentive bonuses; and
- additional benefits of a social nature.

In December 2017, the Board of Directors approved a new long-term incentive programme for key employees of our Group for the period from 2018 to 2022. Approximately 40.0 million shares of LUKOIL have been allocated to the 2018-2022 long-term incentive programme. We are currently in the process of implementing the programme.

Total remuneration paid to members of the Board of Directors and the Management Committee for 2019 was RUB 1,893 million (\$30.6 million translated at the closing CBR rate as of 31 December 2019).

Board Practices

Members of our Board of Directors are elected at shareholders' meetings by cumulative voting. Directors serve until the next annual general shareholders meeting and may be re-elected an unlimited number of times. Our Board of Directors has the authority to make overall management decisions for us, except those matters reserved to our general shareholders meeting. The current term of office for each of our directors expires at our next annual general shareholders meeting, which will take place by 30 June 2020.

We also maintain an Audit Committee of the Board of Directors. The Audit Committee maintains control over the completeness, accuracy and reliability of LUKOIL's accounting (financial) statements, analyses material aspects of LUKOIL's accounting policy, studies the Group's accounting (financial) statements prepared in accordance with IFRS and prepares certain recommendations to the Board of Directors. Its responsibilities include making recommendations for selection of the company's auditor, evaluating the auditor's report and determining whether the auditor meets the auditor independence and conflict of interest requirements. The Audit Committee is elected, where practical, from among the independent members of the Board of Directors and consists of at least three persons. The Audit Committee is headed by an independent member of the Board of Directors. Where it is not practical due to objective reasons, at least a majority of the members, and the chairman, of the committee must be independent directors, with the remaining members of the committee being non-executive members of the Board of Directors (who are members of our Board of Directors but not members of our Management Committee). The Audit Committee members are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Victor Blazheev and the other committee members are Pavel Teplukhin and Sergei Shatalov.

Our Human Resources and Compensation Committee of the Board of Directors provides recommendations to the Board of Directors in relation to candidates for members of the Management Committee, the position of the President of the Company and the position of the Corporate Secretary of the Company, and evaluates all candidates for members of the Board of Directors and whether they meet professional qualification and independence requirements. The committee also considers and prepares recommendations for the Board of Directors to be used for making decisions on matters related to human resources and compensation of members of the company's management bodies. The Human Resources and Compensation Committee is elected, where practical, from among the independent members of the Board of Directors and consists of at least three persons. The Human Resources and Compensation Committee is headed by an independent member of the Board of Directors. Where it is not practical due to objective reasons, at least a majority of the members, and the chairman, of the committee must be independent directors, with the remaining members of the committee being non-executive members of the Board of Directors (who are members of our Board of Directors but not members of our Management Committee). The members of the committee are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Roger Munnings and the other committee members are Victor Blazheev and Wolfgang Schüssel.

Our Strategy, Investment and Sustainability Committee of the Board of Directors prepares recommendations to the Board of Directors for establishing priorities in, and making adjustments to, our long-term development strategy, and assessing and supervising our strategic development program. Its responsibilities also include making recommendations to the Board of Directors on the amounts of dividends and procedure for their payment as well as the procedure for distribution of our profits and losses upon the results of a financial year. The Strategy, Investment and Sustainability Committee is elected from among the members of our Board of Directors and consists of at least three persons. At least one member of the committee must be an independent director. The members of the committee are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Sergei Shatalov and the other committee members are Leonid Fedun, Toby Gati and Ravil Maganov.

Our shareholders appoint our President, who is also the Chairman of our Management Committee, for a term of five years. Our Board of Directors determines the principal terms and conditions of the President's employment. The President is responsible for the day-to-day management of our activities. Our Management Committee is determined annually by our Board of Directors and currently consists of 14 members. The President proposes the size of the Management Committee and candidates for membership of the Management Committee to our Board of Directors for approval. Members of our Management Committee serve until our Board of Directors confirms the new members of our Management Committee. The Management Committee

is our collective executive body and, under the direction of its Chairman, is responsible for our day-to-day management.

Director Contracts

We have entered into employment contracts with the following directors:

- Vagit Yu. Alekperov
- Ravil U. Maganov
- Leonid A. Fedun

Mr. Alekperov has served as President, Chairman of the Management Committee and a member of the Board of Directors of LUKOIL since 1993. Pursuant to Russian law and LUKOIL's Charter, we enter into a fixed term employment contract with Mr. Alekperov as President of LUKOIL. The current contract was executed in June 2016 for a term of five years. The contract with Mr. Alekperov can be terminated early with one month's prior notice. If we terminate Mr. Alekperov's contract prior to its expiration in June 2021, we are obligated to pay him severance in an amount equal to 24 months of his base salary.

In March 1994, we entered into an employment contract with Mr. Maganov governing the terms of his service as First Vice President of LUKOIL. The contract with Mr. Maganov was amended several times between 2006 and 2019. Pursuant to the amendments to the contract made in October 2006, Mr. Maganov's position was changed from First Vice President to First Executive Vice President of LUKOIL. His contract has an indefinite term and may be terminated according to the Labour Code of the Russian Federation. Upon his termination by us, Mr. Maganov is entitled to severance in an amount equal to 12 months of his base salary. LUKOIL has also entered into an agreement with Mr. Maganov governing his membership on the Management Committee.

In July 1995, we entered into an employment contract with Mr. Fedun governing the terms of his service as Vice President and Head of the Department of Strategic Development and Investment Analysis of LUKOIL. The contract with Mr. Fedun was amended several times between 2006 and 2019. Pursuant to the amendments to the contract made in February 2012, Mr. Fedun's position was changed from Vice President and Head of the Department of Strategic Development and Investment Analysis to Vice President on Strategic Development of LUKOIL. The employment contract has an indefinite term and may be terminated according to the Labour Code of the Russian Federation. Upon its termination by us, Mr. Fedun is entitled to severance in an amount equal to 12 months' base salary.

Except as disclosed above, there are no contracts existing or proposed between any of our directors and the Group.

THE ISSUER

LUKOIL Securities B.V. was incorporated in the Netherlands on 6 February 2020, with registered number 77250672 as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands (with its statutory seat in Amsterdam).

Share capital and ownership

The issued share capital of the Issuer is €12,020,000 divided into 12,020,000 shares of par value €1 each. As of 7 April 2020, the share capital was fully paid. All of the issued shares are owned by LUKOIL.

Principal Activities

The principal activity of the Issuer is to raise funds for LUKOIL.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company with limited liability under the laws of the Netherlands and those related to the issue of the notes.

The Issuer has no employees.

The registered office of the Issuer is Zuidplein 198, H Tower, Level 24, 1077 XV Amsterdam, the Netherlands, and its phone number is +31 20 5788470.

Directors and Supervisory Board

The Issuer has three directors: Mr. Craig Birch, Ms Yana Levin and Mr. Matheus Alphonsus Cornelia Maria van der Meulen.

Mr. Craig Birch has served as a member of the management board of the Issuer since its incorporation in February 2020. He also serves as a member of the management boards of other Dutch, Cypriot and UK companies of the Group, including LUKOIL Securities Limited and LUKOIL Capital Markets Limited. From 2001 to 2016, Mr. Birch was a director at LUKOIL Accounting & Finance Ltd (UK). He was also Head of Branch at LUKOIL Accounting & Finance Europe (the Netherlands) from 2016 to 2017 and Director of reporting at LUKOIL Holding B.V. (the Netherlands) from 2018 to 2019. In 1999, Mr. Birch qualified as Chartered Management Accountant.

Ms. Yana Levin has served as a member of the management board of the Issuer since its incorporation in February 2020. She also serves as a member of the management board of Lumex Holding B.V., a company of the Group. She works as head of legal affairs at LUKOIL International Upstream Holding B.V. and other Dutch companies of the Group. From 2012 to 2015, Ms. Levin worked as a senior associate in the corporate department of the law firm Van Campen Liem (Amsterdam, the Netherlands) and was also responsible for the Russian/CIS desk at this firm. From 2010 to 2012, she worked as an associate at Nysingh Advocaten & Notarissen in Arnhem, the Netherlands. Ms. Levin earned a Master of Laws degree from the University of Nijmegen (the Netherlands) in 2002.

Mr. Matheus Alphonsus Cornelia Maria van der Meulen has served as a member of the management board of the Issuer since its incorporation in February 2020. He has also worked as a certified chartered strategy advisor for small and medium sized companies from 2013 until 2020. From 2014, Mr. Van der Meulen has been serving on the management boards of several Group companies, including Lumex Holding B.V., LUKOIL Overseas Atash B.V. and LUKINTER Finance B.V. Prior to 2009, Mr. Van der Meulen mainly held positions of Chief Financial Officer at various companies. From 2009 to 2011, he served as a non-executive member of the Board and a member of the Audit and Remuneration Committee at Machinery & Industrial Group N.V. (a major Russian agricultural and rail transport company). Mr. Van der Meulen earned a degree in business administration (economics) from the Erasmus University in 1973, a Masters in Business Administration degree from the Graduate School of Management, Delft (the Netherlands), in 1976 and a MBA Finance degree from the Michigan State University, East Lansing (USA), in 1977. None of the Issuer's directors has or had any interest in any transaction effected by the Issuer during the current financial year, which is or was unusual in its nature or conditions or significant to the Issuer's business. There are no potential conflicts of interest between any duties of the directors of the Issuer and the Issuer, and their respective private interests and/or their other duties.

The business address of Mr. Craig Birch, Ms. Yana Levin and Mr. Matheus van der Meulen is Zuidplein 198, H Tower, Level 24, 1077 XV Amsterdam, The Netherlands.

The Issuer has a supervisory board which consists of one member, Christian Peter van Overbeeke. The supervisory board performs the role of the audit committee of the Issuer. The Supervisory Board mainly (i) monitors the financial reporting process and propose measures to enhance integrity of that process; (ii) monitors the effectiveness of the internal control and audit systems and of the risk management system relating to the financial reporting; (iii) monitors the statutory audit of the annual accounts; and (iv) reports periodically to the Issuer's directors on results of the foregoing activities.

Financial Statements

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as of the date of this Prospectus. Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2020. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

The Issuer appointed KPMG Accountants N.V. as its auditors. KPMG Accountants N.V.'s registered office is at Laan van Langerhuize 1-11, 1186 DS Amstelveen, The Netherlands. KPMG Accountants N.V. is a member of the Koninklijk Nederlands Instituut van Registeraccountants ("**Royal Netherlands Institute of Registered Accountants**").

ADDITIONAL INFORMATION REGARDING THE COMPANY

Principal Interests in LUKOIL

The following table sets forth details, in so far as is known to LUKOIL, as of 31 March 2020 (being the latest practicable date prior to the date of this prospectus), unless otherwise indicated, of all shareholders (other than directors and members of the Management Committee of LUKOIL but including nominee shareholders) that hold 5% or more of the share capital of LUKOIL. See “*Management—Additional Information About Our Directors—Interests of the Directors in Our Share Capital*” for information on Mr. Alekperov and Mr. Fedun, who own, directly or indirectly, or are beneficiaries of (including through family trusts and mutual funds) of more than 5% of our common shares.

Name of Shareholder⁽¹⁾	Per cent. of issued common share capital
National Settlement Depository (nominee) ⁽²⁾	91.32%

(1) For information on the beneficial ownership interests of our directors in LUKOIL, please see “*Management—Additional Information About Our Directors—Interests of the Directors in Our Share Capital*”.

(2) This includes 5.696% of shares allocated for the Group’s incentive programme for key employees. See “*Management—Additional Information About Our Directors—Director and Management Compensation*” for more information on the incentive programme.

Equity

Share Buy-backs and Cancellations

In November 2018, we reduced our share capital from 850,563,000 to 750,000,000 common shares as a result of a share purchase with immediate cancellation. The purchase was approved by our shareholders in August 2018. Most of the shares were purchased from LUKOIL Securities Limited, a wholly-owned subsidiary of LUKOIL.

In August 2018, we announced our first share buy-back programme for an aggregate amount of up to \$3 billion, which was completed in September 2019. The buy-back programme was maintained through LUKOIL Securities Limited.

In August 2019, we further reduced our share capital from 750,000,000 to 715,000,000 common shares as a result of a share purchase with immediate cancellation. The purchase was approved by our shareholders in June 2019. Out of 35 million common shares 15.5 million common shares were purchased from LUKOIL Securities Limited.

In February 2020, we further reduced our share capital from 715,000,000 to 693,000,000 common shares as a result of a share purchase with immediate cancellation. The purchase was approved by our shareholders in December 2019. Most of the shares were purchased from LUKOIL Securities Limited. See also Note 24 “*Equity*” to our consolidated financial statements for 2019 for more information on the reduction of our share capital.

In October 2019, we announced our second buy-back programme for an aggregate amount of up to \$3 billion, which is currently ongoing.

Dividends and Dividend Policy

In 2019, 2018 and 2017, we paid dividends on common shares of RUB 180,747 million, RUB 158,370 million and RUB 138,810 million, respectively. On 12 December 2019, our Board of Directors amended our dividend policy. The main principles of our dividend policy are as follows: (a) the total amount of dividends on our common shares, excluding the shares held by our Group companies, equals at least 100% of our “adjusted free cash flow”; (b) the “adjusted free cash flow” is calculated on the basis of our consolidated financial statements and is determined as net cash provided by operating activities less capital expenditures, interest paid, repayment of lease obligations, and expenses for purchase of LUKOIL’s stock; and (c) dividends are paid twice a year with the amount of interim dividends calculated based on the consolidated financial statements for the six-month period. The dividends are declared by our general shareholders meeting upon recommendations of our Board of Directors. At

that, the amount of dividends to be declared by the general shareholders meeting should not exceed the amount of dividends recommended by the Board of Directors. We make dividend payment to our shareholders subject to availability of sufficient net profit of LUKOIL for the reporting period calculated based on the Russian accounting standards, and, if necessary, retained earnings of previous years, as well as subject to absence of dividend payment restrictions.

Certain Interested Party Transactions

For the purposes of our consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures.” Transactions between LUKOIL and its subsidiaries, which are related parties of LUKOIL, are eliminated on consolidation and are, therefore, not disclosed herein.

We engage in transactions with associates, joint ventures and other related parties in the ordinary course of business that include primarily the sale and purchase of crude oil and refined products to and from associates and joint ventures, as well as granting loans to associates and joint ventures. Additionally, in the ordinary course of business, we enter into transactions with various other related parties as defined by IAS 24.

For further information about our significant transactions and balances with related parties, see Note 31 “*Related party transactions*” to our consolidated financial statements for 2019, Note 29 “*Related party transactions*” to our consolidated financial statements for 2018 and Note 30 “*Related party transactions*” to our consolidated financial statements for 2017 included elsewhere in this prospectus.

The following table sets forth the outstanding balances with related parties as of the dates indicated.

	2019	As of 31 December 2018	2017
		<i>(millions of rubles)</i>	
Accounts receivable.....	1,079	1,927	10,567
Other financial assets ⁽¹⁾	51,053	64,007	82,288
Total assets	52,132	65,934	92,855
Accounts payable.....	5,002	13,492	6,696
Loans and borrowings.....	2,222	3,356	3,170
Total liabilities	7,224	16,848	9,866

- (1) Other financial assets represents loans granted to our associates and joint ventures for exploration of new oil and gas fields and general business development purposes. We granted these loans on a parity basis along with other participants that hold interests in our associates and joint ventures, with the participants lending amounts proportional to their interests in the applicable loan recipient. These loans were provided at an arms-length basis and are payable upon maturity. Majority of loans bear a floating interest rate at the CBR key rate + 10% per annum.

The following table sets forth our related party transactions for the periods indicated.

	2019	Year ended 31 December 2018	2017
		<i>(millions of rubles)</i>	
Sales of oil and oil products.....	31,028	35,325	14,927
Other sales.....	2,356	4,593	4,055
Purchases of oil and oil products.....	84,400	209,599	86,548
Other purchases.....	11,187	9,690	7,388
Proceeds from sale of other financial assets, net.....	10,872	18,749	6,948
(Principal repayments) proceeds from issuance of loans, net.....	(1,094)	23	(798)

Litigation and Claims

Other than the proceedings described in the bulleted paragraphs directly following this paragraph, there are no and have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this prospectus, which may have, or have had in the recent past, significant effects on our Group’s financial position or profitability:

- In July 2015, the prosecutors with the Ploesti Court of Appeals (the “**Prosecutor’s Office**”) charged the general director and several officers of PETROTEL-LUKOIL S.A., a Group company, with bad faith use of the company’s credit and money laundering. The Prosecutor’s Office subsequently brought similar charges against LUKOIL Europe Holdings B.V., a Group company, for activities undertaken from 2010 to

2014. On 10 May 2016, the Prahova Tribunal lifted all precautionary measures that were in effect against the accused individuals (but not the accused Group companies). Upon preliminary hearings, the Prosecutor's Office revised the amount of damages claimed from \$2.2 billion (RUB 136.2 billion) to \$1.5 billion (RUB 92.85 billion). An investigation of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Prahova Tribunal on 12 February 2018. At the final hearing on the case, which was held on 23 October 2018, the court issued a not guilty decision to all the accused, including, general director of PETROTEL-LUKOIL S.A., his deputies and PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. themselves. As a result, the existing injunction, which had frozen assets in the amount of \$1.5 billion (RUB 92.85 billion), was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor's Office to the Ploesti Court of Appeals. On 27 November 2019, the Ploesti Court of Appeals issued a decision to return the case for a new examination in the court of first instance. On 24 December 2019, the defendants appealed the decision in an order of extraordinary appeal to the Ploesti Court of Appeals. Consideration of the complaint was scheduled for 16 March 2020; however, due to the coronavirus (COVID-19) outbreak, the court hearings have been postponed for an indefinite period. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

- LUKOIL Overseas Karachaganak B.V., a Group company, owns a 13.5% interest in Karachaganak Petroleum Operating joint venture, which operates the Karachaganak field in Kazakhstan under a PSA. LUKOIL Overseas Karachaganak B.V., among other contractors, is involved in disputes with respect to cost recovery in 2010–2015 (the “CR”) and the calculation of the “fairness index” (the “FI”) in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations, and in relation to the FI, the parties are taking part in an arbitration. Our management believes that the amounts of claims, as well as the calculations of potential losses arising from these disputes, are preliminary and should not be disclosed in order to avoid any adverse impact of the disclosure on the arbitration process and the positions of the parties therein. At the same time, our management does not preclude the possibility of settlement of the FI-related dispute and believes that the final outcome of the CR- and FI-related disputes will not have a material adverse effect on the Group's financial position.

We are also involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against us and are subject to uncertainty inherent in any litigation, we do not believe that the ultimate resolution of such matters will have a material adverse impact on our operating results or financial condition.

There are no and have been no governmental, legal or arbitration proceedings against the Issuer (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this prospectus, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

Other Information

LUKOIL's initial charter was registered with the Moscow Registration Chamber on 22 April 1993 with a registration number of 024.020, and the current version of the charter was registered with the Interdistrict Inspectorate of the Federal Tax Service No. 46 for the city of Moscow on 27 March 2020 under state registration number 2207703110734. On 17 July 2002, LUKOIL was entered into the Unified State Registrar of Legal Entities under registration number 1027700035769. LUKOIL's Legal Entity Identifier number (LEI) is 549300LCJ1UJXHBYW24. LUKOIL's registered address is 11 Sretensky Boulevard, Moscow 101000, Russian Federation, and our telephone number is +7 (495) 627 4444. LUKOIL's website is www.lukoil.com, and the information on this website does not form part of this prospectus unless otherwise indicated elsewhere in this prospectus.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the notes which, subject to amendment, will be endorsed on each Definitive Note (as defined below) and will be attached and (subject to the provisions thereof) apply to the Global Notes.

The US\$1,500,000,000 3.875 per cent. notes due 2030 (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith) of LUKOIL Securities B.V. (the “**Issuer**”) were authorised by a written resolution of the board of directors of the Issuer dated 28 April 2020.

The Notes are constituted by a trust deed dated 6 May 2020 (the “**Trust Deed**”) to be entered into between the Issuer, PJSC “LUKOIL” (the “**Guarantor**”) and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantor have entered into an agency agreement dated 6 May 2020 in relation to the Notes (the “**Agency Agreement**”) with the Trustee and Citibank, N.A., London Branch, as principal paying agent (the “**Principal Paying Agent**” and, together with any other paying agents appointed under the Agency Agreement, the “**Paying Agents**”) and as transfer agent (the “**Transfer Agent**”) and Citigroup Global Markets Europe AG as registrar (the “**Registrar**”). The Registrar, Paying Agents and Transfer Agent are together referred to herein as the “**Agents**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Terms and Conditions shall have the respective meanings given to them in the Trust Deed.

1. Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of U.S.\$200,000 (the “**Minimum Denomination**”) and integral multiples of US\$1,000 in excess thereof (“**authorised denominations**”) and, **provided that** the Notes may be transferred only in amounts not less than the Minimum Denomination and integral multiples of US\$1,000 in excess thereof. Title to the Notes shall pass by registration in the register (the “**Register**”) which the Issuer shall procure to be kept by the Registrar. The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form (“**Definitive Notes**”) in the limited circumstances set forth in the Agency Agreement.

2. Guarantee and Status

(a) *Guarantee*

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the “**Guarantee**”). The Guarantor's obligations in respect of the Guarantee are contained in the Trust Deed.

The Guarantor has undertaken in the Trust Deed that so long as any of the Notes remains outstanding (as defined in the Trust Deed) it will not take any action for the liquidation or winding-up of the Issuer.

(b) *Status*

The Notes constitute unsubordinated and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Subject to Condition 4 (*Negative Pledge*), each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors save those whose claims are preferred by any mandatory operation of law.

3. **Register, Title and Transfers**

(a) ***Register***

The Registrar shall maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers thereof. In these Conditions, the “**holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.

(b) ***Title***

Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such holder.

(c) ***Transfers***

Subject to Conditions 3(f) and 3(g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the “**Transfer Form**”), duly completed and executed, at the specified office of the Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3(d). Neither the part transferred nor the balance not transferred may be less than the applicable authorised denomination.

(d) ***Registration and delivery of Definitive Notes***

Within five business days of the surrender of a Definitive Note in accordance with Condition 3(c) above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder.

(e) ***No Charge***

The registration of the transfer of a Note shall be effected without charge to the holder or transferee thereof, but against such indemnity from the holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) ***Closed periods***

Noteholders may not require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note.

(g) ***Regulations concerning Transfer and Registration***

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreement. The regulations may be changed by the Issuer and the Guarantor with the prior written approval of the Trustee, the Transfer Agent and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified office of the Registrar in London.

4. Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed):

- (a) neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will procure that no Subsidiary (as defined below) will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a “**Security Interest**”) other than a Permitted Security Interest (as defined below) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined below):
 - (i) payment of any sum due in respect of any such Relevant Indebtedness;
 - (ii) any payment under any guarantee of any such Relevant Indebtedness; or
 - (iii) payment under any indemnity or other like obligation relating to any such Relevant Indebtedness;
- (b) each of the Issuer and the Guarantor will procure that no Person (other than the Guarantor) gives any guarantee of, or indemnity in respect of, any of the Issuer's or the Guarantor's Relevant Indebtedness to the holders thereof,

without in any such case at the same time or prior thereto procuring that the Notes or, as the case may be, the Guarantor's obligations under the Guarantee (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or (z) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

5. Covenants

(a) *Mergers*

The Guarantor shall not enter into or become subject to, and shall not permit the Issuer or any Principal Subsidiary to enter into or become subject to, any reorganisation (including, without limitation, any amalgamation, demerger, merger or corporate reconstruction) or to change its corporate structure if such a reorganisation or change would have a Material Adverse Effect.

(b) *Payment of Taxes*

So long as any of the Notes remains outstanding, the Guarantor shall, and shall ensure that its Subsidiaries shall, pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Guarantor or any Subsidiary, **provided, however, that** none of the Guarantor nor any of its Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP or other appropriate provision has been made or (y) if such failure to pay or discharge shall not have a Material Adverse Effect.

6. Interest

The Notes bear interest from the Issue Date (as defined below) at the rate of 3.875 per cent. per annum, payable in equal instalments semi-annually in arrear on 6 May and 6 November in each year, commencing on 6 November 2020.

The Notes will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event the Notes shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of the Notes up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders

under these Conditions). If interest is required to be calculated for a period other than a semi-annual interest period ending on 6 May and 6 November in each year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

7. Redemption and Purchase

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 6 May 2030.

(b) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or, if a Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the Russian Federation or any political or governmental subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 6 May 2020 and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; **provided that** no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(c) Redemption at the option of the Issuer

The Issuer may also choose to redeem the Notes, in whole or in part, on any date falling prior to 6 February 2030 (the "**Par Call Date**") on not less than 30 nor more than 60 days' irrevocable notice to the Noteholders, by paying a redemption price equal to the sum of:

- (i) 100% of the principal amount of the Notes to be redeemed, plus
- (ii) the Applicable Premium

plus accrued and unpaid interest thereon, if any, to the redemption date.

The Issuer may also choose to redeem the Notes, in whole or in part, on any date falling on or after the Par Call Date on not less than 30 nor more than 60 days' irrevocable notice to the Noteholders, by paying a redemption price equal to the sum of 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest thereon, if any, to the redemption date.

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) and (b) above and this paragraph (c). All Notes in respect of which any such notice of redemption is given under this Condition 7 shall be redeemed on the date specified in such notice in accordance with this Condition 7.

In these Conditions:

“**Applicable Premium**” means, with respect to a Note at any time, the excess of (a) the present value at such redemption date of such Note, plus any required interest payments that would otherwise be due to be paid on such Note from such redemption date to the Par Call Date, calculated using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points, over (b) the principal amount of such Note, **provided that** if the value of Applicable Premium at any time would otherwise be less than zero, then in such circumstances for the purposes of these Conditions the value of Applicable Premium will be equal to zero; and

“**Treasury Rate**” means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the redemption date to the Par Call Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days (but not more than five business days) prior to the redemption date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)); **provided, however, that** if the period from the redemption date to the Par Call Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to the Par Call Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

(d) ***Purchase***

The Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(e) ***Cancellation***

All Notes redeemed or purchased pursuant to this Condition 7 shall be cancelled forthwith and may not be held or resold. Any Notes so cancelled may not be reissued.

8. Payments

(a) ***Principal***

Payments of principal (whenever due) and interest due on redemption shall be made by the Paying Agents by U.S. Dollar cheque drawn on a bank in New York City, or by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Notes at the specified office of any Paying Agent.

(b) ***Interest***

Payments of interest (other than interest due on redemption) shall be made by the Paying Agents by U.S. Dollar cheque drawn on a bank in New York City, or by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City not later than the due date for such payment.

(c) ***Payments subject to fiscal laws***

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) ***Payments on business days***

If the due date for any payment of principal or interest under this Condition 8 is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition “**business day**” means any day on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a U.S. Dollar

account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

(e) **Record date**

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment. Any cheque will be mailed to the holder of the relevant Note at his address appearing in the Register.

(f) **Agents**

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantor, acting together, reserve the right, with the written approval of the Trustee, to vary or terminate the appointment of all or any of the Agents at any time and appoint additional or other payment or transfer agents, **provided that** they will maintain (i) a Principal Paying Agent and (ii) Paying Agents and a Transfer Agent having specified offices in at least one major European city approved by the Trustee, being London so long as the Notes are admitted to the Official List of the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's "Main Market". Notice of any such change will be provided as described in Condition 17 (*Notices*) below.

9. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under the Guarantee by the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within The Netherlands or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

- (a) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantee by reason of being affiliated to the Issuer or the Guarantor or its having some present or former connection with The Netherlands or (as the case may be) the Russian Federation other than the mere holding of such Note or the benefit of the Guarantee; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed pursuant to: (i) sections 1471-1474 of the United States Internal Revenue Code ("**FATCA**") or any associated regulations, administrative or other official guidance, along with any amendments thereto, (ii) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the United States and any other jurisdiction, which (in either case) facilitates the implementation of (i) above; or
- (d) for any tax imposed on, or measured by, net income, or any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge; or
- (e) where the Noteholder fails to comply with a request from the Issuer or the Guarantor for any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with The Netherlands or the Russian Federation, if such compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the tax, levy, deduction or other governmental charge, and the Noteholder is able to comply with such requirements without undue hardship.

In these Conditions, “**Relevant Date**” means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in New York City by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts or premium in respect of principal or interest (as the case may be) which may be payable under this Condition.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction (or payments on the Notes become subject to tax in the jurisdiction of a Paying Agent) other than (or in addition to) The Netherlands or the Russian Federation, respectively, references in these Conditions to The Netherlands or the Russian Federation shall be construed as references to The Netherlands or (as the case may be) the Russian Federation and/or such other jurisdiction.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject to its rights under the Trust Deed to be indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable if any of the following events occurs and is continuing (each an “**Event of Default**”):

- (a) payment of principal or interest in respect of any of the Notes is not made within seven business days (in the case of principal) or fourteen business days (in the case of interest) of when the same ought to have been paid in accordance with these Conditions; or
- (b) a default is made by the Issuer or the Guarantor in the performance or observance of any covenant, condition or provision contained in the Trust Deed, in the Notes or on its part to be performed or observed (other than the covenant to pay the principal and interest in respect of any of the Notes) and (except where the Trustee certifies in writing that, in its opinion, such default is not capable of remedy when no such notice as mentioned below shall be required) such default continues for the period of 60 days next following the service by the Trustee on the Issuer or the Guarantor of notice requiring such default to be remedied; or
- (c) any other present or future Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor, the relevant Principal Subsidiary (as the case may be) or (**provided that** no event of default, howsoever described, has occurred) any person entitled to such Indebtedness, taking into account any applicable grace periods; **provided that**, either, (i) the individual amount of the relevant Indebtedness, guarantee or indemnity in respect of which the event mentioned above in this paragraph (c) has occurred and is continuing equals or exceeds US\$100,000,000 or (ii) the aggregate amount of the relevant Indebtedness, guarantee and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred and is continuing equals or exceeds US\$300,000,000 or, in the case of an amount specified in (i) or (ii) above, its equivalent (as reasonably determined by the Trustee) (on the basis of the middle spot rate for the relevant currency against the U.S. Dollar as quoted by any leading bank on the day on which such calculation is made); or
- (d) an effective resolution is passed or an order of a court of competent jurisdiction is made that the Issuer or the Guarantor be wound-up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders; or
- (e) an effective resolution is passed or an order of a court of competent jurisdiction is made for the winding-up or dissolution of any Principal Subsidiary except (i) for the purposes of or pursuant to and followed by a consolidation or amalgamation with or merger into the Issuer, the Guarantor or any other Subsidiary (provided such Subsidiary will be a Principal Subsidiary following such consolidation, amalgamation or merger), (ii) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than as described in (i) above) the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders or (iii) by way of a voluntary winding-up or dissolution and there are surplus assets in any Principal Subsidiary and such

surplus assets attributable to the Issuer and/or the Guarantor and/or any Principal Subsidiary are distributed to the Issuer and/or the Guarantor and/or any other Subsidiary (provided such Subsidiary will be a Principal Subsidiary following such consolidation, amalgamation or merger); or

- (f) an encumbrancer takes possession or a receiver is appointed of the whole or (in the opinion of the Trustee) a material part of the assets or undertaking of the Issuer, the Guarantor or any Principal Subsidiary and such possession or appointment is not discharged or rescinded within 120 days thereof (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) **provided that** at all times during such period the Issuer, the Guarantor or such Principal Subsidiary, as the case may be, is contesting such possession or appointment in good faith; or
- (g) a distress, execution or seizure before judgment is levied or enforced upon or sued upon or sued out against a part of the property of the Issuer, the Guarantor or any Principal Subsidiary which is (in the opinion of the Trustee) material in its effect upon the operations of the Issuer, the Guarantor or such Principal Subsidiary (as the case may be) and is not stayed or discharged within 120 days thereof (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned); or
- (h) the Issuer, the Guarantor or any Principal Subsidiary (i) through an official action of the board of directors of the Issuer, the Guarantor or such Principal Subsidiary (as the case may be) announces its intention not or (ii) is unable to pay all or (in the opinion of the Trustee) any material part of its debts as and when they fall due; or
- (i) proceedings shall have been initiated against the Issuer, the Guarantor or any Principal Subsidiary for its liquidation, insolvency, bankruptcy or dissolution under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 120 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) unless, and for so long as, the Trustee is satisfied that it is being contested in good faith and diligently; or
- (j) the Issuer, the Guarantor or any Principal Subsidiary shall initiate or consent to proceedings for its liquidation, insolvency, bankruptcy or dissolution relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make a general assignment for the benefit of, or enter into any general composition with, its creditors; or
- (k) a moratorium is agreed or declared in respect of any Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary or any governmental authority or agency condemns, seizes, compulsorily purchases, transfers or expropriates all or (in the opinion of the Trustee) a material part of the assets, licences or shares of the Issuer, the Guarantor or any Principal Subsidiary; or
- (l) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect to at least the same extent as at the date of issue of the Notes; or
- (m) any event occurs which under the laws of The Netherlands, the Russian Federation or, in the case of a Principal Subsidiary, the jurisdiction of its incorporation (if different), has an analogous effect to any of the events referred to in paragraphs (d) to (k) above,

and, except in the case of (a) above, the Trustee shall have certified in writing to the Issuer that the event is, in its opinion, materially prejudicial to the interests of the Noteholders.

Upon any such notice being given to the Issuer, the Notes will immediately become due and repayable at their principal amount together with interest incurred to such date.

11. Prescriptions

Claims for the payment of principal and interest in respect of any Definitive Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

12. Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity

and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13. Meetings of Noteholders, Modification and Waiver

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10% in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, and to vote on a resolution other than an Extraordinary Resolution will be two or more persons holding or representing not less than 10% in principal amount of the notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vi) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

(b) Modification and Waiver

The Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

(c) Substitution

The Trust Deed contains provisions permitting the Trustee to agree with the Issuer and the Guarantor, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such substitution, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to a change of law governing the Notes and/or the Trust Deed, **provided that** such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders. Notice of any such substitution will be provided as described in Condition 17 (*Notices*) below.

(d) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Notes (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee may rely without liability to Noteholders on any report, confirmation or certificate or any advice of the Auditors, the Chief Accountant of the Guarantor, or any expert considered by the Trustee to be of good repute, whether or not addressed to the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise.

16. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides.

17. Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices will be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in any English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer, failing whom the Guarantor, shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantor and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

19. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. **Arbitration**

- (a) Any dispute or difference of whatever nature howsoever arising between the Issuer or, as the case may be, the Guarantor and any Noteholder (subject to Condition 14 (*Enforcement*)) under, out of or in connection with the Notes or the Guarantee (including a dispute or difference as to the breach, existence, termination or validity of the Notes or the Trust Deed or the Guarantee and any non-contractual obligations arising out of or in connection with any of them) (each a Dispute) shall (regardless of the nature of the Dispute) be referred to and finally settled by arbitration in accordance with the LCIA Rules (the Rules) as at present in force (which Rules are deemed to be incorporated by reference into this Condition 20(a)) by a panel of three arbitrators appointed in accordance with the Rules.
- (b) The seat of arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of the arbitration shall be English. The appointing authority for the purposes set forth in the Rules shall be the LCIA Court. Any award given by the arbitrator shall be final and binding on the parties to the Dispute and shall be in lieu of any other remedy.

21. **Governing Law, Consent to Enforcement and Waiver of Immunity**

(a) ***Governing law***

The Notes (including for the avoidance of doubt Condition 20 (*Arbitration*)), the Trust Deed and any non-contractual obligations arising out of or in connection with any one of them are governed by English law.

(b) ***Agent for Service of Process***

Each of the Issuer and the Guarantor has appointed LUKOIL Capital Markets Limited at its registered office (being, at the date hereof, 17c Curzon Street, London, England, W1J 5HU) as its agent in England to receive service of process in England in connection with the Notes or the Trust Deed.

(c) ***Consent to enforcement etc.***

The Issuer and the Guarantor consent generally in respect of any Disputes to the giving of any relief or the issue of any process in connection with such Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Disputes.

(d) ***Waiver of immunity***

To the extent that either the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or their respective assets or revenues, the Issuer and the Guarantor agree not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

22. **Definitions**

In these Conditions, the following terms shall have the following meanings:

“**Affiliate**” has the meaning ascribed to it under Rule 405 of the Securities Act;

“**Auditors**” means the auditors of the Group's GAAP consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under terms of the Notes, such other internationally recognised firm of accountants as may be approved in writing by the Trustee for this purpose;

“**business day**” means (except where expressly defined otherwise) a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office;

“**Consolidated Assets**” means the total amount of assets appearing on the consolidated balance sheet of the Guarantor, prepared in accordance with GAAP, as of the date of the most recently prepared consolidated financial statements;

“**Closing Date**” means 6 May 2020;

“**Domestic Relevant Indebtedness**” means any Relevant Indebtedness which is denominated and payable in rubles, is not quoted, listed or ordinarily dealt in or traded on any stock exchange, over the counter or other recognised securities market outside the Russian Federation and which on issue was placed only with investors within the Russian Federation;

“**Event of Default**” has the meaning assigned to such term in Condition 10 (*Events of Default*);

“**GAAP**” means IFRS or U.S. GAAP as applicable;

“**Group**” means the companies which are consolidated in the most recent accounts of the Guarantor prepared in accordance with GAAP;

“**IFRS**” means international accounting standards within the meaning of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards;

“**Indebtedness**” means, in respect of any Person, any indebtedness for, or in respect of, moneys borrowed; any amount raised by acceptance under any credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount of money raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; the amount of any liability in respect of a capital lease that would at that time be required to be capitalised on a balance sheet in accordance with GAAP and (without double counting) the amount of any liability in respect of any guarantee or indemnity (whether on or off balance sheet) for any of the items referred to above; **provided that**, for the avoidance of doubt, Indebtedness shall not include moneys raised by way of the issue of share capital (whether or not for cash consideration and excluding shares which are expressed to be redeemable) and any premium on such share capital; and **provided further that** Indebtedness shall not include Indebtedness among the Issuer, Guarantor and Subsidiaries; and **provided further that** Indebtedness shall not include any trade credit extended to such Person in connection with the acquisition of goods and/or services on arm's length terms and in the ordinary course of trading of that Person;

“**Issue Date**” means 6 May 2020;

“**Material Adverse Effect**” means a material adverse effect on (a) the financial condition or operations of the Guarantor or the Group, or (b) the Issuer's or the Guarantor's ability to perform its obligations under the Notes and the Guarantee, respectively or (c) the validity, legality or enforceability of the Notes or the Guarantee or the rights or remedies of the Noteholders under the Notes or the Guarantee.

“**Permitted Security Interest**” means:

- (a) any Security Interest existing on the Issue Date;
- (b) any Security Interest created or existing in respect of Domestic Relevant Indebtedness;
- (c) any Security Interest existing on any property, income or assets of any company at the time such company becomes a Subsidiary of the Guarantor or such property, income or assets are acquired by the Guarantor or any Subsidiary **provided that** such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other property, income or assets of such company or the Group;
- (d) any Security Interest created or existing in respect of Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which has the benefit of a Security Interest or Security Interests) does not exceed 20% of Consolidated Assets, as determined by reference to the most recently available consolidated financial statements prepared in accordance with GAAP of the Group; or
- (e) any Security Interest created or existing in respect of any Indebtedness that is not Relevant Indebtedness.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

“Principal Subsidiary” means:

- (a) any Subsidiary of the Guarantor (other than the Issuer):
 - (i) whose gross revenues equal or exceed 10% of the gross revenues of the Group; or
 - (ii) whose net income equals or exceeds 10% of the net income of the Group; or
 - (iii) whose net assets equal or exceed 10% of the net assets of the Group, all as shown in the most recent audited accounts (consolidated or aggregated if available) of the Subsidiary and the Group; and
- (b) any Subsidiary to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Guarantor which immediately prior to the transfer was a Principal Subsidiary of the Guarantor.

The Trustee shall be entitled to rely on a certificate of an Authorised Officer as to whether a Subsidiary constitutes a Principal Subsidiary and will not be responsible to any Person for any loss occasioned by relying on such a certificate;

“Relevant Indebtedness” means any present or future Indebtedness in the form of, or represented by notes, debentures, bonds or other securities (but for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or credit agreements) which either are by their terms payable, or confer a right to receive payment, in any currency, and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market;

“Subsidiary” means any corporation or other business entity of which the Issuer or the Guarantor owns or controls (either directly or through one or more Subsidiaries) 50% or more of the issued share capital or other ownership interest having ordinary voting power to elect a majority of the directors, managers or trustees of such corporation or other business entity;

“U.S. Dollars”, **“US\$”** or the sign **“\$”** means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts; and

“U.S. GAAP” means accounting principles generally accepted in the United States of America.

There will appear at the foot of the Conditions endorsed on each Definitive Note the name and specified office of the Agents as set out at the end of this prospectus.

TRANSFER RESTRICTIONS

Rule 144A Notes

In connection with its purchase of Rule 144A Notes, the purchaser hereof (the “**Investor**”), by virtue of its acceptance of this prospectus, will be deemed to represent, acknowledge and agree as follows:

1. It has not distributed this prospectus or any of its contents to any other person and has not disclosed any of the contents of the prospectus to any other person.
2. It (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the notes and is experienced in buying the securities of Russian companies or other emerging market companies, (b) has received and reviewed the prospectus and understands and accepts the substantial risks associated with an investment in the notes, (c) is able to bear a complete loss of its investment in the notes, (d) has the financial ability to bear the economic risk of an investment in the notes for an indefinite period of time and adequate means for providing for its current needs and possible contingencies and (e) has no need for liquidity with respect to its investment in the notes.
3. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the notes, Russia, the Issuer or LUKOIL, and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers have not made and are not making any representation as to the truth, accuracy or completeness of the information in the prospectus.
4. It is (a) a QIB, (b) acquiring such notes for its own account or for the account of one or more QIBs and that, in each case, is holding and transferring beneficial interests of not less than U.S.\$200,000 principal amount of the Rule 144A Notes and (c) aware, and each beneficial owner of such notes has been advised, that the sale of such notes to it is being made in reliance on Rule 144A.
5. It will provide notice of these transfer restrictions to any subsequent transferees.
6. It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and are “**restricted securities**” within the meaning of Rule 144 under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs which can make the representations set out in paragraphs 4 and 5 above or (b) to non-U.S. persons (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
7. It understands that the Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and which cannot make the representations set out in paragraphs 4 and 5 above.
8. Anything herein to the contrary notwithstanding, the Investor shall notify any transferee to which it transfers Rule 144A Notes in accordance with Rule 144A that such transferee will be subject to the restrictions and procedures set forth herein.
9. The Rule 144A Notes will be represented by the Rule 144A Global Note. Before any beneficial interests in the notes represented by the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note, and *vice versa*, certain certifications will be required pursuant to the agency agreement.
10. The Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will at all times bear a legend substantially to the following effect:

THE NOTES REPRESENTED HEREBY AND THE GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES

ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “**QIB**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT (“**REGULATION S**”)) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE HOLDER OF THE NOTES REPRESENTED HEREBY WILL, AND EACH SUBSEQUENT HOLDER OF THE NOTES REPRESENTED HEREBY IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES REPRESENTED HEREBY OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFERS IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THE NOTES REPRESENTED HEREBY, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THE NOTES REPRESENTED HEREBY.

IF THE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY IS A U.S. PERSON WITHIN THE MEANING OF REGULATIONS, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB; (2) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS AND (3) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHICH IS NOT A QIB AND WHICH CANNOT MAKE THE REPRESENTATIONS SET FORTH IN THE FIRST SENTENCE OF THE SECOND PARAGRAPH OF THIS LEGEND. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

BY ITS PURCHASE AND HOLDING OF THE NOTES REPRESENTED HEREBY (OR ANY INTEREST HEREIN), THE PURCHASER AND ANY TRANSFEREE HEREOF WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT: (1) EITHER: (I) IT IS NOT AND FOR SO LONG AS IT HOLDS THE NOTES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) WILL NOT BE (AND IS NOT ACQUIRING ANY NOTE REPRESENTED HEREBY DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THE NOTES ARE HELD WILL BE) (A) AN “EMPLOYEE BENEFIT PLAN” (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”)) THAT IS SUBJECT TO TITLE I OF ERISA, (B) A “PLAN” DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “**CODE**”), (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED TO INCLUDE UNDER THE U.S. DEPARTMENT OF LABOR REGULATION AT 29 C.F.R. § 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE FOR PURPOSES OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, “PLAN ASSETS” BY REASON OF SUCH EMPLOYEE BENEFIT PLAN’S OR PLAN’S INVESTMENT IN THE ENTITY (EACH OF (A)-(C), A “**BENEFIT PLAN INVESTOR**”) OR (II) ITS PURCHASE AND HOLDING OF THE NOTES REPRESENTED HEREBY WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR VIOLATION OF ANY APPLICABLE SIMILAR LAW; AND (2) IF IT IS A BENEFIT PLAN INVESTOR: (I) NONE OF THE ISSUER, LUKOIL, THE MANAGERS, THE TRUSTEE, THE AGENTS OR THEIR RESPECTIVE AFFILIATES (“**TRANSACTION PARTIES**”) HAS PROVIDED ANY INVESTMENT RECOMMENDATION OR ADVICE TO THE BENEFIT PLAN INVESTOR, OR ANY FIDUCIARY OR OTHER PERSON INVESTING ON BEHALF OF THE

BENEFIT PLAN INVESTOR OR WHO OTHERWISE HAS DISCRETION OR CONTROL OVER THE INVESTMENT AND MANAGEMENT OF “PLAN ASSETS” (A “**PLAN FIDUCIARY**”), ON WHICH EITHER THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY HAS RELIED IN CONNECTION WITH THE DECISION TO ACQUIRE THE NOTES; (II) THE TRANSACTION PARTIES ARE NOT ACTING AS A “FIDUCIARY” WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR SECTION 4975(e)(3) OF THE CODE TO THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY IN CONNECTION WITH THE BENEFIT PLAN INVESTOR’S ACQUISITION OF THE NOTES; AND (III) THE PLAN FIDUCIARY IS EXERCISING ITS OWN INDEPENDENT JUDGMENT IN EVALUATING THE TRANSACTION.

THE ISSUER MAY COMPEL THE HOLDER OF THE NOTES REPRESENTED HEREBY TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB (DURING SUCH TIME THAT THE NOTES REPRESENTED HEREBY ARE “**RESTRICTED SECURITIES**” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT).

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER OF THE NOTES REPRESENTED HEREBY, EACH HOLDER OF THE NOTES REPRESENTED HEREBY ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THE NOTES REPRESENTED HEREBY SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THE NOTES REPRESENTED HEREBY ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED (AS DEFINED BELOW).

11. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Issuer or any of its agents.
12. It is not purchasing the notes with the intent or purpose of evading, either alone or in conjunction with any other person, the provisions of the Securities Act.
13. If it is a pension fund or an investment company, it represents that its purchase of the notes is in full compliance with all applicable laws and regulations.
14. It understands that the foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not the notes have previously been offered, sold or transferred outside of the United States.

Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

In connection with its purchase of the Regulation S Notes, the Investor and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by virtue of its acceptance of this prospectus hereof, will be deemed to represent, acknowledge and agree as follows:

1. It has not distributed any part of the prospectus to any other person and has not disclosed any of the contents of the prospectus to any other person.
2. It (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the notes, (b) has received and reviewed the prospectus and understands and accepts the substantial risks associated with an investment in the notes, (c) is able to bear a complete loss of its investment in the notes, (d) has the financial ability to bear the economic risk of an investment in the notes for an indefinite period of time and adequate means for providing for its current needs and possible contingencies and (e) has no need for liquidity with respect to its investment in the notes.
3. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the notes, Russia, the Issuer or LUKOIL and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers are not making any representation as to the truth, accuracy or completeness of the information in the prospectus.
4. It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) is located outside of the United States or purchasing in an offshore transaction (within the

meaning of Regulation S); (b) is not a U.S. person (as defined in Regulation S); and (c) is not an affiliate of the Issuer or LUKOIL or a person acting on behalf of such an affiliate.

5. The notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB which can make the representations set forth in paragraphs 4 and 5 of “*Transfer Restrictions —Rule 144A Notes*” purchasing for its own account or for the account of one or more QIBs which can make the representations set forth in paragraphs 4 and 5 of “*Transfer Restrictions —Rule 144A Notes*” above or (b) to non-U.S. persons (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
6. The Regulation S Notes will be represented by the Regulation S Global Note. Before any beneficial interests in the notes represented by the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note, and *vice versa*, certain certifications will be required pursuant to the agency agreement.
7. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Issuer or any of their respective agents.
8. It is not purchasing the notes with the intent or purpose of evading, either alone or in conjunction with any other person, the provisions of the Securities Act.
9. If it is a pension fund or an investment company, it represents that its purchase of the notes is in full compliance with all applicable laws and regulations.
10. It understands that the foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not the notes have previously been offered, sold or transferred outside of the United States.

ERISA

Each purchaser of notes, and each subsequent transferee of any notes by virtue of the transfer of such notes to such transferee, by accepting delivery of this prospectus and the notes, will be deemed to have represented, agreed and acknowledged that:

1. Either:
 - (a) it is not and for so long as it holds the notes represented thereby (or any interest therein) will not be (and is not acquiring any note represented thereby directly or indirectly with the assets of a person who is or while the notes are held will be) (i) an “employee benefit plan”, as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), that is subject to Title I of ERISA, (ii) a “plan” described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), (iii) any entity whose underlying assets include, or are deemed to include under the U.S. Department of Labor regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA, or otherwise for purposes of Title I of ERISA or Section 4975 of the Code, “plan assets” by reason of such employee benefit plan’s or plan’s investment in the entity (each of (i)-(iii), a “**Benefit Plan Investor**”) or (iv) any employee benefit plan which is subject to any federal, state or local law, or foreign law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (“**Similar Law**”); or
 - (b) its purchase and holding of the notes represented hereby will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any applicable Similar Law.
2. If it is a Benefit Plan Investor:
 - (a) none of the Issuer, LUKOIL, the Managers, the Trustee, the Agents or their respective affiliates (“**Transaction Parties**”) has provided any investment recommendation or advice to the Benefit Plan Investor, or any fiduciary or other person investing on behalf of the Benefit Plan Investor or who otherwise has discretion or control over the investment and management of “plan assets”

- (a “**Plan Fiduciary**”), on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire the notes;
- (b) the Transaction Parties are not acting as a “fiduciary” within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor’s acquisition of the notes; and
- (c) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.

Prohibition of Sales to EEA Retail Investors

Each purchaser of notes, and each subsequent transferee of any notes by virtue of the transfer of such notes to such transferee, will be deemed to have represented, agreed and acknowledged that it is not a “retail investor” in the EEA whereby the expression “retail investor” means a person who is one (or more) of the following:

1. a retail client as defined in point (11) of Article 4(1) of MiFID II;
2. a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

The notes will be evidenced on issue by (i) in the case of the Regulation S Notes, the Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg and (ii) in the case of the Rule 144A Notes, the Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in the Rule 144A Global Note (if applicable). See “*Transfer Restrictions*”. Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See “—*Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB which can make the representations set forth in paragraphs 4 and 5 of “*Transfer Restrictions—Rule 144A Notes*” and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the agency agreement. See “*Transfer Restrictions*”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the agency agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”. A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note only upon receipt by the Registrar of a written certification (in the form provided in the agency agreement) to the effect that the transferor reasonably believes that the transferee is a QIB which can make the representations set forth in paragraphs 4 and 5 of “*Transfer Restrictions—Rule 144A Notes*” and that such transaction is in accordance with any applicable securities laws of any state or other jurisdiction of the United States. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the agency agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for so long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated notes in definitive form (the “**Definitive Notes**”). The notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of noteholders against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the

relevant noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant notes.

Payment business days

So long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, the definition of “business day” in Condition 8(d) (*Payments on business days*) will be modified by the terms of such Global Note to mean any day which is a day on which dealings in foreign currencies may be carried on in New York City.

Record Date

Notwithstanding the provisions of Condition 8(e) (*Record Date*), for so long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, payments in respect of the notes will be made to each accountholder in whose account with a clearing system the notes are held at the opening of business on the Clearing System Business Day before the due date for such payment, where “**Clearing System Business Day**” means a day on which each clearing system for which such Global Note is being held is open for business.

Notices

So long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such notes.

Meetings

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of noteholders and in any such meeting as having one vote in respect of each of the notes for which the relevant Global Note may be exchangeable.

Trustee’s Powers

In considering the interests of noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Note or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) principal in respect of any notes is not paid when due and payable.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the notes.

“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for definitive notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB which can make the representations set forth in paragraphs 4 and 5 of “*Transfer Restrictions—Rule 144A Notes*”. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

Legends

The holder of a Definitive Note may transfer the notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the U.S. Investment Company Act of 1940, as amended (the “**U.S. Investment Company Act**”).

Book-Entry Procedures for the Global Notes

For notes evidenced by both the Regulation S Global Note and the Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the notes and cross-market transfers of the notes associated with secondary market trading. See “—*Book-Entry Ownership—Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, (“**Participants**”) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code

and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly. More information about DTC may be found at www.dtcc.com.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Definitive Notes*”, DTC will surrender the Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing the Rule 144A Notes will have an ISIN and a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of notes evidenced by a Global Note, the common depository by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or account holders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the notes for so long as the notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such notes on the clearing system’s records. The ownership interest of each actual purchaser of each such note (the “**Beneficial Owner**”) will in turn be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written

confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the notes held within such clearing system, and their records will reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement "SDFS" system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the agency agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg, seller and DTC purchaser

When book-entry interests in the notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the agency agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC

participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of notes will be made against payment therefor on the Closing Date, which will be five business days following the date of pricing (T+5). Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing will be required, by virtue of the fact the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices, and purchasers of notes between the date of pricing and the Closing Date should consult their own advisors.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Société Générale and Bank GPB International S.A. (together, the “**Managers**”) have, pursuant to a Subscription Agreement dated 30 April 2020, jointly and severally agreed with the Issuer and LUKOIL, subject to the satisfaction of certain conditions, to subscribe for the notes at 100% of the principal amount of the notes, less concessions and commissions plus accrued interest, if any. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Certain of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their affiliates. The Managers have received, or may in the future receive, customary fees and commissions for these transactions.

Selling Restrictions

General

Neither the Issuer nor LUKOIL nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer or LUKOIL that would permit a public offering of the notes, or possession or distribution of any offering material (in preliminary, proof or final form) in relation thereto in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will, to the best of its knowledge having made due enquiries, comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers notes or has in its possession or distributes this prospectus, in all cases at its own expense.

United States

The notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each Manager has represented, warranted and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of U.S. persons, and it will have sent to each dealer to which it sells notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United State or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offer, an offering or sale of notes within the United States by a dealer which is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Notes offered and sold outside the United States may be sold in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of notes within the United States only to persons whom they reasonably believe are QIBs who can represent that (a) they are QIBs within the meaning of Rule 144A; (b) they are acting for their own account, or the account of one or more QIBs, purchasing an amount for each account of not less than U.S.\$200,000 principal amount of notes; and (c) they will provide notice of the transfer restrictions set forth in this prospectus to any subsequent transferees.

The Issuer and the Managers reserve the right to reject any offer to purchase the notes, in whole or in part, for any reason. This prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB which can make the representations set out in the previous paragraph and to whom an offer has been made directly by one of the Managers or its U.S. broker-dealer affiliate. Distribution of this prospectus by any non-U.S. person outside the United States or by any QIB within the United States to any U.S. person or to any other person within the United States, other than any QIB which can make the representations set out in the previous paragraph and those persons, if any, retained to advise such non-U.S. person or QIB which can make the representations set out in the previous paragraph with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or person within the United States, other than any QIB which can make the representations set out in the previous paragraph and those persons, if any, retained to advise such non-U.S. person or QIB which can make the representations set out in the previous paragraph, is prohibited.

Prohibition of Sales to EEA Retail Investors

Each Manager has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II;
- (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Manager has represented, warranted and undertaken that:

- (i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) and the regulations adopted thereunder with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom; and
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor.

The Russian Federation

Each Manager has represented, warranted and agreed that the notes have not been and will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

Singapore

Each Manager has represented, warranted and agreed that it has not offered or sold any notes or caused the notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any notes or cause the notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “**SFA**”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) *as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.*

Hong Kong

Each Manager has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding-up and Miscellaneous Provisions) Ordinance (Cap. 622) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Republic of Italy

The offering of the notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation. Each Manager has represented and agreed that any offer, sale or delivery of the notes or distribution of copies of the prospectus or any other document relating to the notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the notes or distribution of copies of the prospectus or any other document relating to the notes in the Republic of Italy must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time);
- (ii) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

TAXATION

The following is a general description of certain tax laws relating to the notes. It does not purport to be a complete analysis of all tax considerations relating to the notes, whether in those countries referred to or elsewhere. However, prospective investors should consult their own advisors regarding the tax consequences of an investment in the notes.

The Netherlands

The following is a summary of certain material Dutch tax consequences of purchasing, owning and disposing of the notes. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or dispose of the notes. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. This summary is based on the laws of The Netherlands currently in force and as applied on the date of this prospectus, which are subject to change, possibly with retroactive or retrospective effect. Where in this summary the terms “The Netherlands” and “Dutch” are used, these refer solely to the European part of the Kingdom of the Netherlands.

It is assumed that the notes and income received or capital gains derived therefrom, are not attributable to employment activities of the holder of the notes and that a holder of notes will not directly or indirectly hold a substantial interest (*aanmerkelijk belang*) in the Issuer.

It is further noted that under Dutch tax law an individual may be considered as a holder of notes if he/she is deemed to hold an interest in the notes pursuant to the attribution rules of article 2.14a of The Netherlands Income Tax Act 2001, with respect to property that has been segregated, for instance in a trust or foundation.

Finally, it should be noted that, with the exception of the section on withholding tax below, this summary does not address the Dutch tax consequences for entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba and the notes are attributable to such permanent establishment or permanent representative.

Withholding tax

All payments made by the Issuer under the notes may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

Individuals

A holder of notes who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from notes, including any payment under notes and any gain realised on the disposal of notes, except if:

- (a) he is either resident or deemed to be resident in The Netherlands for Dutch tax purposes or has elected to be treated as a resident of The Netherlands for Dutch income tax purposes; or
- (b) he derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, such enterprise is carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands and his notes are attributable to such enterprise.

Furthermore, a holder of notes who is an individual and who does not come under exception (a) nor under exception (b) above will not be subject to Dutch taxes on income or on capital gains in respect of any payment under the notes or any gain realised on the disposal or deemed disposal of the notes, provided that such holder does not carry out any activities in The Netherlands with respect to the notes that exceed ordinary active asset management (*normaal vermogensbeheer*) and such holder of notes does not derive, or is deemed to derive, benefits from the notes that are (otherwise) taxable as benefits from other activities in The Netherlands (*resultaat uit overige werkzaamheden*).

Entities

A holder of notes other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from notes, including any payment under notes and any gain realised on the disposal of notes, except if:

- (a) it is resident or deemed to be resident in The Netherlands for Dutch tax purposes; or
- (b) it derives profits from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of such enterprise, other than as a holder of securities, such enterprise is either managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and its notes are attributable to such enterprise.

A holder of notes will not become subject to Dutch taxation on income or capital gains by reason only of the issue of the notes or the performance by the Issuer of its obligations thereunder.

Dutch Gift, Estate or Inheritance Taxes

Gift and inheritance tax will arise in The Netherlands with respect to a transfer of the notes by way of a gift by, or on the death of, a holder of notes who is resident or deemed to be resident in The Netherlands at the time of the gift or his/her death.

For purposes of Dutch gift and inheritance taxes, amongst others, a person that holds the Dutch nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the 10 years preceding the date of the gift or the death of this person. Additionally, for purposes of Dutch gift tax, a person not holding the Dutch nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the 12 months preceding the date of the gift. Applicable tax treaties may override deemed residency.

No Dutch gift or inheritance taxes will arise on the transfer of the notes by way of a gift by, or on the death of, a holder of notes who is neither resident nor deemed to be resident in The Netherlands, unless in the case of a gift of the notes by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

Registration Tax, Transfer Tax and Capital tax

There is no Dutch registration tax, transfer tax, capital tax, stamp duty or any other similar documentary tax or duty, other than court fees payable in The Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) of the notes or the performance of the Issuer's obligations under the notes.

Value Added Tax

There is no Dutch value added tax payable in respect of payments in consideration for the issue of the notes or in respect of the payment of interest or principal under the notes or the transfer of the notes, other than the value added Tax which may be due with respect to advisory fees incurred in relation to such payments.

The Common Reporting Standard

The Common Reporting Standard (“**CRS**”) was published by the OECD in 2014. Its goal is to provide for the annual automatic exchange between governments of financial account information reported to them by local reporting financial institutions and relating to account holders who are tax resident in other participating jurisdictions. The DAC creates a mandatory obligation on all Member States to exchange financial account information in respect of residents in other Member States on an annual basis, commencing in 2017 in respect of the 2016 calendar year.

The Netherlands has enacted legislation in order to implement CRS and DAC into Dutch law, under which Dutch financial institutions (as defined in Annex I, Section VIII, subparagraphs A(3) through (8) of DAC) will be obliged to make a single return in respect of CRS and DAC. The Issuer may qualify to be a Dutch financial institution for such purposes. If so, the Issuer will be entitled to require a holder of notes to provide any information regarding their and, in certain circumstances, their controlling persons' tax status, identity or residence, in order to satisfy

any reporting requirements which the Issuer may have as a result of CRS and DAC, and holders of notes will be deemed, by their holding, to have authorised the automatic disclosure of such information by the Issuer (or any nominated service provider) or any other person to the Netherlands Tax and Customs Administration. The Netherlands Tax and Customs Administration will exchange the information with the tax authorities of other participating jurisdictions, as applicable.

Changes in tax law in the Netherlands

The Netherlands have enacted legislation introducing a conditional withholding tax per January 1, 2021 in respect of interest payments to affiliated entities resident in “low tax jurisdictions” and in situations which are considered “abusive.” As only payments of interest to so-called ‘affiliated’ entities, i.e. entities that directly or indirectly, individually or jointly as part of a collaborating group, hold a controlling interest in the Issuer, are in scope of the proposed conditional withholding tax, it is unlikely that the conditional withholding tax will apply to payments under the notes.

The Russian Federation

General

The following is a general summary of certain Russian tax considerations relevant to the acquisition, ownership and disposal of the notes, as well as taxation of payments under the guarantee.

The summary is based on the laws of Russia in effect as of the date of this prospectus (whereas these laws are subject to any changes, which could occur frequently, at short notice and could apply retrospectively). The information and analysis contained in this section are limited to taxation issues and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the notes.

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal authorities of Russia or tax implications arising for the noteholders applying special tax regimes available under Russian tax legislation. Similarly this summary does not seek to address the availability of double tax treaty relief to and the eligibility for double tax treaty relief of any noteholder in respect of income payable to that noteholder on the notes, or practical difficulties connected with claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the noteholders in connection with entering into REPO or stock-lending transactions with the notes or into term deals, derivatives and/or any similar types of transactions with the notes.

Many aspects of the Russian Tax Code are uncertain and lack interpretive guidance resulting in inconsistent interpretations and application thereof by the various Russian authorities in practice. Both the substantive provisions of the Russian Tax Code applicable to securities and financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency as compared to jurisdictions with more developed capital markets and tax systems. The interpretation and application of these provisions will, in practice, to a large extent rest substantially with local tax inspectorates and such interpretations may often be inconsistent or may often change.

In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia may be inconsistent and/or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly provided for by the law. Furthermore, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Prospective investors should consult their own advisors in relation to the tax consequences of investing in the notes that may arise in their particular circumstances. No representations with respect to the Russian tax consequences pertinent to any particular noteholder are made herein.

For the purposes of this summary, the term “**Resident Noteholder**” means:

- a noteholder who is (1) a Russian legal entity or an organisation which acquires, holds and disposes of the notes; or (2) a legal entity or an organisation, in each case organised under a non-Russian law which acquires, holds and disposes of the notes through its permanent establishment in Russia or an organisation organised under a non-Russian law and recognised as Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes of the notes (the “**Resident Noteholder-Legal Entity**”). An organisation organised under a non-Russian law shall be deemed to be tax

resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be tax resident of the Russian Federation in accordance with an applicable double tax treaty or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty;

- a noteholder who is an individual and satisfies the criteria of being a Russian tax resident who acquires, holds and disposes of the notes (the “**Resident Noteholder – Individual**”). A “Russian tax resident” is an individual who is actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this summary, the term “**Non-Resident Noteholder**” means:

- a legal entity or an organisation, in each case not organised under the Russian law which acquires, holds and disposes of the notes otherwise than through its permanent establishment in Russia and does not satisfy the criteria for being a Russian tax resident as defined above qualify as the Resident Noteholder – Legal Entity (the “**Non-Resident Noteholder–Legal Entity**”);
- a noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above and who acquires, holds and disposes of the notes (the “**Non-Resident Noteholder–Individual**”).

For the purposes of this summary, the definitions of “Resident Noteholder” and “Non-Resident Noteholder” in respect of individuals are taken at face value based on the wording of Russian tax law as written as at the date of this prospectus. In practice, however, the application of the above formal residency definition by the Russian tax authorities may differ based on their position in each case.

Tax residency rules and the Russian Federation’s rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of payments under the guarantee made by the guarantor to the Trustee, acting on behalf of the noteholders, may affect the noteholders. See “—*Taxation of Payments under the Guarantee*” below.

Taxation of the Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the notes (including interest received on the notes).

Resident Noteholders should consult their own tax advisors with respect to the effect that acquisition, holding and/or disposal of the notes may have on their tax position.

Non-Resident Noteholders

Taxation of the Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

Acquisition of the notes by the Non-Resident Noteholders–Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, acquisition of the notes should not trigger any Russian tax implications for the Non-Resident Noteholders–Legal Entities at the time of the acquisition.

Interest on the Notes

The Non-Resident Noteholders–Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the notes received from the Issuer. However, taxation of interest on the notes may be affected by the taxation treatment of income from sale of the notes and/or payments under the guarantee. See “—*Sale or other Disposal of the Notes*” and “—*Taxation of Payments under the Guarantee*”.

Sale or other Disposal of the Notes

Generally, there should be no Russian tax on gains from sale or other disposition of the notes imposed on the Non-Resident Noteholder—Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the notes (i.e. debt obligations)

where proceeds from sale or other disposition of the notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated instances in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the notes paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20% (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Taxation of Non-Resident Noteholders–Individuals

Acquisition of the Notes

Acquisition of the notes by Non-Resident Noteholders–Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to the provisions of the Russian Tax Code concerning material benefit (deemed income) received by individuals as a result of the acquisition of securities (in case the notes are initially issued at par, these provisions are likely to be relevant for the acquisition of the notes in the secondary market only). In particular, if the acquisition price of the notes is below the lower margin of the fair market value of the notes calculated based on specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to the Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income derived by Non-Resident Noteholders–Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income if the notes are purchased “in Russia”. In the absence of any additional guidance as to what should be considered as a purchase of securities “in Russia”, the Russian tax authorities may apply various criteria to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is therefore no assurance that as a result of the acquisition of the notes any material benefit received by the Non-Resident Noteholders–Individuals will not become taxed in Russia.

Interest on the Notes

A Non-Resident Noteholder–Individual generally should not be subject to any Russian taxes in respect of payments of interest on the notes received from the Issuer. Taxation of interest on the notes may however be affected by the taxation treatment of income from sale of the notes and /or payments under the guarantee. See “—*Sale or other Disposal of the Notes*” and “—*Taxation of Payments under the Guarantee*”.

Sale or other Disposal of the Notes

A Non-Resident Noteholder–Individual should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if the receipt of any proceeds from a disposal of the notes by a Non-Resident Noteholder–Individual is classified as income from a source within Russia for Russian personal income tax purposes and, these proceeds will become subject to Russian personal income tax at a rate of 30% (or such other tax rate as may be effective at the time of payment).

Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources, in practice the Russian tax authorities may assert that such income should be considered as Russian source income if the notes are sold or disposed “in Russia”. In absence of any additional guidance as to what should be considered as a sale or other disposal of securities “in Russia”, the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the purchaser, or other similar criteria. There is no assurance therefore that as a result sales or disposal proceeds received by the Non-Resident Noteholders–Individual will not become taxable in Russia.

If the disposal proceeds are considered as being derived from Russian sources, Russian personal income tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the notes (including accrued

and paid interest on the notes) decreased by the amount of duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and sale or other disposal of the notes), provided that the notes qualify as securities under Russian and applicable foreign law and such documentation is duly executed. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or the person remitting the respective income to the Non-Resident Noteholder–Individual (where such person qualifies as a tax agent obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the immediate deduction will be disallowed and Russian personal income tax will apply to the gross amount of sales or disposal proceeds.

In certain circumstances if the sale and other disposal proceeds (including accrued and paid interest on the notes) are paid to a Non-Resident Noteholder–Individual by a party considered as tax agent for Russian tax purposes (licensed broker or an asset manager that is a Russian legal entity or organisation, carrying out operations for the benefit of the Non-Resident Noteholder–Individual under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement, or any Russian legal entity, an individual entrepreneur, a Russian representative office or Russian branch of a foreign organisation making payment of proceeds under sale and purchase agreement or exchange agreement to Non-Resident Noteholder–Individual), the applicable Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment) should be withheld at source by such tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder–Individual.

The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (mentioned above) or by 1 March of the year following the calendar year in which the income was received. Failure or inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of payment of such tax on the Non-Resident Noteholder–Individual based on a tax notification issued by the tax authorities.

If the costs were born in connection with the acquisition of the notes within the relationship with the party other than tax agent who is obliged to calculate and withhold Russian personal income tax under this agreement, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the noteholder and presentation of the documents confirming the costs.

Where a sale is made by a Non-Resident Noteholder–Individual to other legal entities, organisations (other than licensed brokers or asset managers mentioned in the preceding paragraph) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder–Individual would be then required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of acquisition cost and other expenses related to the acquisition, holding and sale or other disposal of the notes confirmed by the supporting documentation. The applicable personal income tax would then have to be paid by the Non-Resident Noteholder–Individual on the basis of the filed personal income tax return.

In certain circumstances, gains received and losses incurred by a Non-Resident Noteholder–Individual as a result of sale or other disposal of the notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for the Russian personal income tax purposes, which would affect the total amount of income of a Non-Resident Noteholder–Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder–Individual from sale or other disposal of the notes may be affected by changes in the exchange rate between the currency of acquisition of the notes, the currency of the sale or other disposal of the notes and Russian rubles. For personal income tax purposes deductible costs and proceeds from disposal of the notes are converted into Russian rubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in Russian ruble terms due to devaluation of the Russian ruble (whereas in foreign currency terms there might be no gain or even capital loss).

Non-Resident Noteholders–Individuals should consult their own tax advisors with respect to tax consequences of the acquisition of the notes, sale or other disposition of the notes, including the receipt of sales proceeds from a source within Russia.

Taxation of Payments under the Guarantee

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with payments received pursuant to fulfilment of the obligations of the Guarantor established by the

Guarantee. Resident Noteholders should consult their own tax advisors with respect to the effect that the receipt of such payments may have on their tax position.

Withholding tax

Pursuant to the Russian Tax Code, payments made by a Russian entity to a Non-Resident–Legal Entity should be subject to Russian withholding tax to the extent such payments represent Russian source income. The Russian Tax Code provides an open list of Russian source income, referring to “other similar income” that could include any income similar to the specific examples of types of Russian source income provided in the Russian Tax Code (e.g., dividends, interest, royalties, fines, penalties, etc.), including guarantee payments. The Russian Tax Code provides that the exemption established for the “issued bonds” (as discussed below) should be applicable with regard to payments made under the guarantee.

Therefore, payments under the guarantee made by the Guarantor to or to the order of the Trustee acting on behalf of the noteholders should be subject to the Russian withholding tax at a rate of 20% unless the criteria for application of the exemption established for the “issued bonds” (as discussed below) are all met or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty.

The Russian Tax Code provides that Russian companies which make payments in favour of foreign legal entities upon the execution of the guarantee or suretyship should be released from the obligation to withhold Russian income tax from such payments provided that the following conditions are all met (i.e., exemption established for the “issued bonds”):

- (1) Payments under a guarantee or suretyship arose in connection with the placement by foreign entities of “issued bonds”, where “issued bonds” are defined as bonds or other debt obligations which are (a) listed and/ or admitted to trading on one of the qualifying foreign exchanges and/ or (b) cleared through one of the qualifying foreign depository/ clearing organisations.

The lists of qualifying foreign stock exchanges and foreign depository/clearing organisations were approved by the Central Bank of the Russian Federation in its Order № 4393-U of 30 May 2017. The London Stock Exchange and the clearing systems Euroclear, Luxembourg and Clearstream were included in the above-mentioned lists. DTC is not expressly mentioned in the lists as opposed to its holding company, the Depository Trust & Clearing Corporation. One can argue, albeit it is not free from doubt, that reference to the Depository Trust & Clearing Corporation in the lists should cover its subsidiaries, including DTC. We believe that the aforementioned conditions provided by the Russian Tax Code are satisfied because, among other things, the notes will be admitted to the Official List of the London Stock Exchange.

- (2) Payments under a guarantee or suretyship relate to “issued bonds” which were placed by a foreign entity in order to fund a debt to a Russian entity.

Debt obligations of a Russian legal entity towards a foreign legal entity should be recognised as arising in connection with the issuance by a foreign legal entity of “issued bonds” if reference to this fact is made in the agreement governing the debt obligation and/or in the terms and conditions of the issuance of the respective “issued bonds” and/or in the prospectus, or the connection is verified by the actual movement of funds.

Pursuant to the section “*Use of Proceeds*” of this prospectus, the net proceeds from the issue of the notes will be used by the Issuer to on-lend to LUKOIL, which intends to use the proceeds for general corporate purposes.

Therefore, if any amounts of the net proceeds would not be used to fund debts to the Russian companies of the Group (including the Guarantor), this condition will not be satisfied, and the above-mentioned tax release could not be applied in practice with respect to corresponding amounts of guarantee payments. In this case, there is a risk that respective payments under the guarantee may be subject to Russian withholding tax, unless it is reduced or eliminated based on the applicable double tax treaty.

- (3) There is a double tax treaty between Russia and the jurisdiction of tax residence of (i) the issuer of the “issued bonds”, (ii) the foreign entity authorised to receive interest income payable on the “issued bonds”, or (iii) the foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned which can be confirmed by a duly executed tax residency certificate of such person.

The Trustee is incorporated under the laws of England and Wales, therefore, the Guarantor should not be required to deduct Russian withholding tax from guarantee payments made to the Trustee acting on behalf of the noteholders, provided the Guarantor has received from the Trustee a tax residency confirmation and the Trustee is deemed to be a “foreign entity authorised to receive interest income payable on the issued bonds” for Russian taxation purposes.

There is a risk that the Trustee could not be viewed as a “foreign entity authorised to receive interest income payable on the issued bonds” for Russian taxation purposes. In this case, it could be argued that the Non-Resident Noteholder–Legal Entity can be viewed as a “foreign entity authorised to receive interest income payable on the issued bonds”. In this respect if the Non-Resident Noteholder–Legal Entity provides the Guarantor with the tax residency certificate confirming that it resides in the jurisdiction having a double tax treaty with Russia, the above exemption on the “issued bonds” could be applicable with regard to payments under the guarantee payable to such noteholders.

In case the above exemption on the “issued bonds” is not applicable with regard to payments under the guarantee, there is a risk that respective payments under the guarantee may be subject to Russian withholding tax unless the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty.

Pursuant to the Russian Tax Code the double tax treaty benefits could be applied only by a non-resident income recipient who has the actual right to receive income (i.e., who qualifies as a “beneficial owner of income”). A non-resident income recipient claiming double tax treaty benefits which has the actual right to receive income should provide the tax agents that pay Russian source income with a duly executed tax residency certificate and a confirmation that it has an actual right to receive the income in question before the date of the income payment. There is no list of particular documents which can be supplied by the non-resident income recipient for this purpose. Further, there is no explicit guidance or list of the structures which can jeopardise the beneficial owner status of the non-resident income recipient. Beneficial ownership status is determined under a very broad facts-and-circumstances test and should be analysed on a case-by-case basis.

While the tax treaty benefits are available to the beneficial owners of income only, it is not expected that the Trustee will, or will be able to, claim the exemption from or reduction in the standard Russian withholding tax rate applicable to interest payments based on the applicable double tax treaty. In this respect if the Non-Resident Noteholder–Legal Entity is a beneficial owner of income payable under the guarantee and provides the Guarantor with the tax residency certificate and a relevant confirmation that it is a beneficial owner of income, the Russian withholding tax on guarantee payments payable to such Non-Resident Noteholder–Legal Entity could be reduced or eliminated based on the applicable double tax treaty. However, there can be no assurance that the double tax treaty relief (or refund of any taxes withheld) will be available for Non-Resident Noteholder–Legal Entities with respect to payments under the guarantee in practice.

In addition, while some Non-Resident Noteholders may be eligible for an exemption from or a reduction in Russian withholding tax or personal income tax, as applicable, under the respective double tax treaties entered into between their countries of tax residence and Russia, where such treaties exist and to the extent they are applicable, there can be no assurance that such exemption or reduction would be available for them in practice under such circumstances. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the payment under the guarantee, including the principal amount of the notes. Since the above could only be relevant in case of payments made in favour of the Non-Resident Noteholders–Legal Entities residing for tax purposes in countries which do not have a double tax treaty with Russia, reduction or elimination of 20% Russian withholding tax on the basis of the double tax treaties under such circumstances should not be possible.

In case the payments under the guarantee are deemed to be made to the Non-Resident Noteholder-Individual, a Non-Resident Noteholder–Individual may be subject to Russian personal income tax as such income may be treated as a Russian source income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the notes, could be subject to Russian personal income tax at the rate of 30%, which may be withheld at source or payable on a self-assessed basis. The tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures as described below with respect to proceeds from the disposal of the notes (see “*Taxation—Russian Federation – Tax Treaty Relief*”).

Importantly, the above-mentioned exemption established by the Russian Tax Code for the “issued bonds” that envisages the release from the obligation to deduct Russian withholding tax from payments made upon the execution of a guarantee or suretyship (provided the above conditions are all simultaneously met) does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian tax authorities. There can be no assurance that such rules will

not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients including the Non-Resident Noteholders–Legal Entities and/or the Trustee.

If payments under the guarantee become subject to the Russian withholding tax (as a result of which the Guarantor would have to reduce payments made under the guarantee by the amount of tax withheld), LUKOIL will be obliged (subject to certain conditions) to increase payments under the guarantee as may be necessary so that the net payments received by the Trustee acting on behalf of the noteholders will be equal to the amounts they would have received in the absence of such withholding.

Currently, the Russian tax legislation explicitly permits settlement of a taxpayer’s obligations by other parties. Under the previous tax regime, the absence of such provision was perceived as being one of the key obstacles for the enforceability of gross-up provisions in Russia. Notwithstanding the current wording, there is still a risk that gross-up for withholding tax will not take place and that the payments made by LUKOIL under the guarantee will be reduced by the amount of the Russian income tax withheld by LUKOIL at the rate of 20% (in the case of applicability of the rate established for Non-Resident Noteholders–Legal Entities) or at a rate of 30% (in the case of applicability of the rate established for Non-Resident Noteholders–Individuals), or such other rate as may be in force at the time of payment.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow to reduce or eliminate Russian income tax due with respect to income received by a Non-Resident Noteholder from Russian sources, including income relating to acquisition, holding, sale and disposal of the notes (if this income is treated as income from Russian sources). To the extent double tax treaty benefits are available, in order to obtain them, such Non-Resident Noteholders must comply with the certification, information and reporting requirements in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

In order to enjoy the double tax treaty benefits, a Non-Resident Noteholder–Legal Entity which has the actual right to receive income (i.e., which qualifies as the “beneficial owner of income”) and is eligible for the benefits of the applicable double tax treaty should provide the tax agent with the satisfactory documentary evidence to these facts as well as the duly executed tax residency certificate before the date of each income payment.

Starting 2016 in order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty a Non-Resident Noteholder–Individual must provide to the tax agent a passport of a foreign citizen in order to prove his/ her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder–Individual to provide a tax residency certificate issued by the competent authorities in his/ her country of residence for tax purposes. It is not explicit whether Russian citizens who are not tax residents in Russia may enjoy exemption from taxation at source under the respective double tax treaty. The law does not clearly establish how the tax agent shall determine whether a passport is sufficient to confirm the individual’s eligibility to double tax treaty benefits. Within 30 days upon payment of income subject to tax exemption or withholding at a reduced tax rate under the respective double tax treaty the tax agent is obliged to submit information to the Russian tax authorities on foreign individuals – recipients of income (passport details and citizenship) and income paid (type of income, amount of income and date of payment). The procedure of elimination of double taxation of Non-Resident Noteholders–Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

The Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of income received in connection with the acquisition, holding and the sale or other disposal of the notes as well as interest income and payments under the guarantee.

Moreover, currently it is not entirely clear how the double tax treaty to which the Russian Federation is a party would be affected by the MLI. It is possible that the changes made as a result of Russia being a party to the MLI may have an additional adverse impact on the availability of double taxation treaty benefits to the Non-Resident Noteholders. See *“Risk Factors —Risks Relating to the Russian Federation—Russian anti-offshore policy may have an adverse impact on the Group’s business, financial condition and results of operations”*.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder—Legal Entity was withheld at source, a claim for a refund of the Russian income tax that was excessively withheld at source

can be filed by that Non-Resident Noteholder–Legal Entity with the Russian tax authorities within three years following the date of withholding, or provided that such Non-Resident Noteholder—Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income within three years following the year in which the tax was withheld. There is no assurance that such refund will be possible in practice.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder–Individual, for whom double tax treaty relief is available, was withheld at source despite the right of this Non-Resident Noteholder–Individual to rely on benefits of the applicable double tax treaty allowing such individual not to pay the tax in Russia or allowing to pay the tax at a reduced tax rate in relation to such income, a claim for a refund of Russian personal tax (which was excessively withheld at source) and an application of the benefits of the applicable double tax treaty, together with a passport of a foreign individual / tax residency certificate issued by the competent authorities in his/her country of residence may be filed by that Non-Resident Noteholder–Individual to the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (for instance, in case of a liquidation of the tax agent), such an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates. Obtaining a refund of Russian income taxes which were excessively withheld at source is likely to be a time consuming and lengthy process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

VAT on Payments under the Guarantee

The Russian Tax Code specifically exempts payments under guarantee from VAT if they are made by banking entities. However, it does not provide a similar exemption with respect to payments made by non-banking entities. Therefore, it is not entirely clear if payments made under the guarantee by the Guarantor should be subject to VAT.

There is an argument that payments made by the Guarantor under the guarantee should not be subject to Russian VAT because they are outside the scope of Russian VAT as there is no supply of goods, works or services by the recipients of payments under the guarantee (i.e., the Trustee or the noteholders) to the Guarantor.

However, there is a residual risk that a portion of payments made by the Guarantor to the Trustee representing reimbursement of fees for such services as legal, advertising and accounting services incurred by the Trustee may be subject to Russian VAT withheld by the Guarantor at the rate of 18/118 pursuant to sub-item 4 of item 1 of Article 148 of the Russian Tax Code.

United States

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes by U.S. Holders (as defined below), but does not purport to be a complete analysis of all the potential tax considerations. This summary is based upon the Internal Revenue Code of 1986, as amended (the “**Code**”), the Treasury Regulations promulgated or proposed thereunder (the “**Regulations**”) and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change at any time, possibly on a retroactive basis. No assurance can be given that the treatment of the notes described herein will be respected by the Internal Revenue Service (the “**IRS**”) or, if challenged, by a court. This summary is limited to the tax consequences to those persons who are initial purchasers of the notes and who hold the notes as capital assets within the meaning of Section 1221 of the Code. This summary does not purport to deal with all aspects of U.S. federal income taxation that might be relevant to particular U.S. Holders in light of their particular investment circumstances or status, nor does it address specific tax consequences that may be relevant to particular persons (including, for example, financial institutions, broker-dealers, insurance companies, partnerships or other

pass-through entities, expatriates, banks, real estate investment trusts, regulated investment companies, tax-exempt organisations, accrual method taxpayers subject to special tax accounting rules as a result of their use of financial statements (as described in Section 451(b) of the Code), U.S. Holders that have a functional currency other than the U.S. dollar or persons in special situations, such as those who have elected to mark securities to market or those who hold the notes as part of a straddle, hedge, conversion transaction or other integrated investment). In addition, this summary does not address tax considerations applicable to U.S. Holders that own (directly or by attribution) 10% or more of the vote or value of the stock of LUKOIL. This summary does not address U.S. Medicare tax, U.S. federal alternative minimum, estate and gift tax consequences or consequences under the tax laws of any state, local or non-U.S. jurisdiction. We have not sought any ruling from the IRS with respect to the statements made and the conclusions reached in this summary, and we cannot assure you that the IRS will agree with such statements and conclusions.

This summary is for general information only. U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income taxation and other tax consequences to them of acquiring, owning and disposing of the notes, as well as the application of state, local and non-U.S. and other tax laws.

For purposes of this summary, a “U.S. Holder” means a beneficial owner of a note that is for U.S. federal income tax purposes: (1) an individual who is a citizen or resident of the United States, (2) a corporation created or organised under the laws of the United States, any state thereof, or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (4) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) a valid election to be treated as a U.S. person for U.S. federal income tax purposes is in effect with respect to such trust.

For purposes of this summary, an entity treated as a partnership for U.S. federal tax purposes will not be treated as a U.S. Holder. A partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax on income derived from holding a note. The U.S. taxation of a partner in a partnership will depend on the nature of the partnership’s activities. If you are a partner in a partnership which holds the notes, you should consult your tax advisor about the U.S. tax consequences of acquiring, owning and disposing of the notes.

Characterisation of the Notes

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the notes. We believe and intend to take the position that the notes constitute debt for U.S. federal income tax purposes. However, no ruling will be obtained from the IRS with respect to the characterisation of the notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the notes. If, due to our capital structure or otherwise, the notes were treated as equity interests in us, U.S. Holders likely would be treated as owning interests in a “passive foreign investment company” (a “PFIC”). Prospective investors should consult their tax advisors regarding the characterisation of the notes and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the notes will be treated as debt for U.S. federal income tax purposes.

Payments of Interest

Payments of interest on a note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued in accordance with such U.S. Holder’s regular method of accounting for U.S. federal income tax purposes. Payments of interest on the notes will constitute income from sources outside the United States and generally will be treated as “passive income” for foreign tax credit limitation purposes.

Effect of Russian Withholding Taxes

As discussed in “*Taxation—The Russian Federation*”, under current law payments made by LUKOIL under the guarantee to holders of the notes who are not Russian residents may be subject to Russian withholding taxes. In this circumstance, LUKOIL may become liable for the payment of additional amounts to U.S. Holders (see “*Terms and Conditions of the Notes—Taxation*”) so that U.S. Holders receive the same amounts they would have received had no Russian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having received the amount of Russian taxes withheld by the guarantor with respect to a note, and as then having paid over the withheld taxes to the Russian taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder

from the guarantor with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Russian income taxes withheld and paid by LUKOIL. For purposes of the foreign tax credit limitation, foreign source income is classified into appropriate “baskets”, and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to income in such basket. Interest on the notes generally will constitute foreign source income in the passive basket. A U.S. Holder will not be entitled to a credit against its U.S. federal income tax liability for Russian taxes withheld in excess of the applicable tax rate under the United States-Russia Tax Treaty if such amounts are treated as recoverable by the U.S. Holder for U.S. federal income tax purposes, regardless of whether the U.S. Holder successfully claims a refund for such taxes. In addition, in certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed only deductions) for foreign taxes imposed on interest if the notes are held under arrangements in which the U.S. Holder’s expected profit is insubstantial. Prospective purchasers should consult their tax advisors concerning the foreign tax credit implications of the payment of these Russian taxes.

Treatment of Premium

If a U.S. Holder purchases a note for an amount greater than its principal amount, the U.S. Holder generally may elect to amortise this premium over the term of the note. If a U.S. Holder makes this election, the amount of interest income in each payment period will be reduced by the amount of premium allocated to that period. The U.S. Holder’s basis will also be reduced by the amortised amount. Generally, an election to amortise premium for one note requires a U.S. Holder to amortise premium for all debt instruments it acquired or acquires at a premium. U.S. Holders should consult their own advisors about whether the election would be advisable in their particular circumstances and about how to calculate the amount of premium allocated to each payment period.

Sale, Exchange and Retirement of the Notes

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a note equal to the difference between the amount realised on the sale or retirement (excluding any amount attributable to accrued but unpaid interest, which will be treated as a payment of interest to the extent not previously included in income) and the U.S. Holder’s tax basis in the note, decreased (but not below zero) by any amortised premium (as described above). A U.S. Holder’s tax basis in a note generally will be the cost of the note to such holder. Any gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a note will be capital gain or loss and will be long-term capital gain or loss if the note was held by the U.S. Holder for more than one year. Long-term capital gains recognised by non-corporate U.S. Holders are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realised by a U.S. Holder on the sale, exchange or retirement of a note generally will be U.S. source gain or loss.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of the sale or other disposition of notes by, a U.S. paying agent or other U.S. connected intermediary will be reported to the IRS along with certain information, including the beneficial owner’s name, address and taxpayer identification number, the aggregate amount of interest or other amounts paid to that beneficial owner during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to payments to certain U.S. Holders, including tax-exempt organisations, provided that they establish entitlement to an exemption.

In the event that a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law, or underreports its tax liability, backup withholding may apply to each payment of interest and principal on the notes and on proceeds from a sale or other disposition of the notes. Backup withholding is not an additional tax and may be refunded or credited against the U.S. Holder’s U.S. federal income tax liability, provided that the required information is furnished to the IRS.

U.S. Holders should consult their own tax advisors regarding their qualifications for an exemption from backup withholding and the procedure for obtaining such exemption, if applicable.

U.S. Holders should consult their own tax advisors regarding any filing or reporting obligations that may apply to the acquisition, ownership or disposition of the notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

ERISA

The following is a summary of certain considerations associated with the purchase and holding of any notes (or interest therein) by (i) an “employee benefit plan” (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”)) that is subject to Part 4 of Subtitle B of Title I of ERISA, (ii) a plan, individual retirement account or other arrangement that is within the meaning of and subject to Section 4975 of the Code and (iii) entities whose underlying assets include, or are deemed to include under the U.S. Department of Labor regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA, or otherwise for purposes of Title I of ERISA or Section 4975 of the Code (the “**Plan Asset Regulation**”), “plan assets” by reason of any such plan’s, account’s or arrangement’s investment in the entity (each of (i), (ii) and (iii), a “**Benefit Plan Investor**”). Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Benefit Plan Investor and certain persons (referred to as “parties in interest” within the meaning of Section 3(14) of ERISA or “disqualified persons” within the meaning of Section 4975 of the Code and collectively, “**Parties in Interest**”) having certain relationships to such Benefit Plan Investors, unless a statutory or administrative exemption is applicable to the transaction. A Parties in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Accordingly, each original or subsequent purchaser or transferee of a note that is or may become a Benefit Plan Investor is responsible for determining that its purchase and holding of such note will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Certain employee benefit plans, such as governmental plans, church plans and non-U.S. plans, while not subject to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to other federal, state or local laws or non-U.S. laws that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (“**Similar Law**”).

This summary is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions or violations of Similar Law, it is particularly important that fiduciaries, or other persons considering purchasing or holding any notes (or interest therein) on behalf of, or with the assets of, any Benefit Plan Investor or Similar Law plan, consult with their counsel.

The Plan Asset Regulation generally provides that when a Benefit Plan Investor acquires an “equity interest” in an entity that is neither a “publicly offered security” (as such terms are defined in the Plan Asset Regulation) nor a security issued by an investment company registered under the U.S. Investment Company Act, the Benefit Plan Investor’s assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that equity participation in the entity by the Benefit Plan Investor is not “significant” or that the entity is an “operating company,” in each case as defined in the Plan Asset Regulation. For purposes of the Plan Asset Regulation, equity participation in an entity by Benefit Plan Investors will not be “significant” if they hold, in the aggregate, less than 25% of the value of each class of equity interests of such entity, excluding equity interests held by any person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the entity or who provides investment advice for a fee (direct or indirect) with respect to such assets, and any “affiliate” within the meaning of paragraph (f)(3) of the Plan Asset Regulation of such person (the “**significant participation test**”).

For purposes of the Plan Asset Regulation, (i) the notes will not constitute “publicly offered securities” and (ii) the Issuer will not be an investment company registered under the U.S. Investment Company Act. Moreover, no one will monitor the significant participation test.

Under the Plan Asset Regulation, the term “equity interest” means any interest in an entity other than an interest that is treated as indebtedness under applicable local law and which has no substantial equity features. There are no regulations, published rulings or judicial decisions addressing the characterisation for ERISA purposes of securities issued under the same circumstances and with substantially the same terms as the notes. The company believes and intends to take the position that the notes do not constitute “equity interests” for purposes of the Plan Asset Regulation. There can be no assurance, however, that the U.S. Department of Labor or the courts would agree with such characterisation. If the notes were deemed to constitute “equity interests” and Benefit Plan Investors held a significant portion of the notes, and provided that no other exception from the treatment as “plan assets” applied, the Issuer’s assets would be deemed to include “plan assets” subject to the fiduciary provisions of Section 406 of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code.

Whether or not the assets of the Issuer are deemed to include “plan assets”, the acquisition and/or holding of any notes (or an interest therein) by a Benefit Plan Investor with respect to which the Issuer, its affiliates and other parties connected with the offering are considered a Party in Interest may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is

acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions (“PTCEs”) that may apply to the acquisition and holding of the notes. These class exemptions include, without limitation, PTCE 75-1, which exempts certain transactions between a plan and certain broker dealers, reporting dealers and banks, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers, although there can be no assurance that all of the conditions of any such exemptions will be satisfied. In addition, the statutory service provider exemption provided by Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, which exempts purchase and sale of securities and related lending transactions, could apply, provided that neither the issuer of the securities nor its affiliate has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of any Benefit Plan Investor involved in the transaction (in other words, not a fiduciary) and provided further that the Benefit Plan Investor pays no more than, and receives no less than, adequate consideration in connection with the transaction.

We cannot provide any assurance that any of these class exemptions or statutory exemptions will apply with respect to any particular investment in the notes by, or on behalf of, a Benefit Plan Investor or, even if it were deemed to apply, that any exemption would apply to all transactions that may occur in connection with the investment.

Because of the foregoing, the notes (and any interest therein) may not be purchased or held by any person investing “plan assets” of any Benefit Plan Investor or employee benefit plan that is subject to any Similar Law, unless such purchase and holding will not constitute or result in a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Law.

Accordingly, by its purchase and holding of any notes (or any interest therein), each purchaser thereof and each transferee will be deemed to have represented and agreed that: (1) either: (i) it is not and for so long as it holds notes (or any interest therein) will not be (and is not acquiring the notes directly or indirectly with the assets of a person who is or while the notes are held will be) a Benefit Plan Investor or employee benefit plan that is subject to Similar Law; or (ii) its purchase and holding of the notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any applicable Similar Law; and (2) if it is a Benefit Plan Investor: (i) none of the Issuer, LUKOIL, the Managers, the Trustee, the Agents or their respective affiliates (“**Transaction Parties**”) has provided any investment recommendation or advice to the Benefit Plan Investor, or any fiduciary or other person investing on behalf of the Benefit Plan Investor or who otherwise has discretion or control over the investment and management of “plan assets” (a “**Plan Fiduciary**”), on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire the notes; (ii) the Transaction Parties are not acting as a “fiduciary” within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor’s acquisition of the notes; and (iii) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.

In addition, fiduciaries and other plan investors should also consider the fiduciary standards under ERISA or other Similar Law in the context of the plan’s particular circumstances before authorising an investment of “plan assets” in the notes. Among other factors, fiduciaries and other plan investors should consider whether the investment:

- satisfies the diversifications requirement of ERISA or other Similar Law;
- complies with the plan’s governing instruments; and
- is prudent in light of the “Risk Factors” and other factors discussed in this prospectus.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the notes on behalf of, or with the assets of, any Benefit Plan Investor, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Law to such investment and whether an exemption would be applicable to the purchase and holding of the notes.

REGULATION OF THE OIL INDUSTRY IN THE RUSSIAN FEDERATION

The following information relating to the regulation of the oil industry in the Russian Federation is for background purposes only. This information has been extracted from publicly available sources. LUKOIL has not independently verified the following information. Although LUKOIL accepts responsibility for extracting and reproducing such information accurately, none of LUKOIL or any of the Joint Lead Managers accepts responsibility for the accuracy of such information.

Set forth below are certain key provisions of the Russian legislation relating to the oil industry applicable to the Group. This description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

Applicable Legislation

The regulation of the oil industry in the Russian Federation is primarily based on the following laws:

- Parts One, Two, Three and Four of the Civil Code of the Russian Federation (generally effective 1 January 1995, 1 March 1996, 1 March 2002 and 1 January 2008, respectively), as amended (the “**Civil Code**”);
- Federal Law No. 208-FZ on Joint Stock Companies dated 26 December 1995, as amended;
- Federal Law No. 14-FZ on Limited Liability Companies dated 8 February 1998, as amended;
- Federal Law No. 225-FZ on Production Sharing Agreements dated 30 December 1995, as amended (the “**PSA Law**”);
- Law No. 2395-1 on Subsoil dated 21 February 1992, as amended (the “**Subsoil Law**”);
- Federal Law No 99-FZ on Licensing of Certain Activities dated 4 May 2011, as amended (the “**Licensing Law**”);
- Federal Law No. 69-FZ on Gas Supply in the Russian Federation dated 31 March 1999, as amended;
- Federal Law No. 117-FZ on Export of Gas dated 18 July 2006, as amended;
- Federal Law No 135-FZ on Protection of Competition dated 26 July 2006, as amended (the “**Antimonopoly Law**”);
- Federal Law No. 147-FZ on Natural Monopolies dated 17 August 1995, as amended;
- Parts One and Two of the Tax Code of the Russian Federation (effective 1 January 1999 and 1 January 2001, respectively), as amended (the “**Russian Tax Code**”);
- Law of the Russian Federation No. 5003-1 Concerning the Customs Tariff dated 21 May 1993, as amended;
- the Customs Code of the Eurasian Economic Union (annex No. 1 to the Agreement on the Customs Code of the Eurasian Economic Union dated 11 April 2017);
- Federal Law No. 57-FZ on Procedure for Carrying out Foreign Investments in Enterprises which have Strategic Importance for Ensuring Defence and Security of the State dated 29 April 2008, as amended (the “**Law on Strategic Enterprises**”);
- the Land Code of the Russian Federation dated 25 October 2001, as amended (the “**Land Code**”);
- Federal Law No. 7-FZ on Environment Protection dated 10 January 2002, as amended (the “**Environment Protection Law**”);
- Federal Law No. 39-FZ on the Securities Market dated 22 April 1996, as amended; and
- Federal Law No. 46-FZ on Protection of Rights and Legitimate Interests of Investors at Securities Market dated 5 March 1999, as amended.

The Regulatory Authorities

At the federal level, regulatory authority over the oil industry is divided primarily between Ministry of Energy of the Russian Federation, which replaced the Ministry of Industry and Energy of the Russian Federation pursuant to Presidential Decree No. 724 dated 12 May 2008 (Decree No. 724), and the Ministry of Natural Resources and Ecology of the Russian Federation, which replaced the Ministry of Natural Resources of the

Russian Federation pursuant to Decree No. 724. The Ministry of Energy of the Russian Federation sets and implements governmental policy for the industry, drafts legislation regulating the energy sector and has the enforcement authority and the property management functions. The Ministry of Natural Resources and Ecology of the Russian Federation is involved, in particular, through the Federal Agency for Subsoil Use supervised by it, in the licensing of subsoil resources and also regulates geological exploration for oil and gas.

Unless the relevant Decrees of the Russian President or Orders of the Russian Government provide otherwise, the federal ministries in Russia are not responsible for the control and supervision and management of the state property, which are generally performed by the federal services and the federal agencies, respectively. On the basis of Presidential Decree No. 314 dated 9 March 2004 (“**Decree No. 314**”), the control and surveillance functions related to use of natural resources and ecology are fulfilled by the Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation, and the law enforcement functions related to subsoil use and the functions involving provision of state services and property management in the subsoil use area are fulfilled by the Federal Agency for Subsoil Use of the Russian Federation. Prior to enactment of Decree No. 314, the functions of these two federal authorities were performed by the Ministry of Natural Resources of the Russian Federation. The Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation and the Federal Agency for Subsoil Use of the Russian Federation are subordinate to the Ministry of Natural Resources and Ecology of the Russian Federation.

Among other things, the Federal Agency for Subsoil Use of the Russian Federation is responsible for organising tenders and auctions for subsoil use, the award of subsoil licences, issuing, suspension and terminating subsoil licences, and the Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation is responsible for supervising the compliance by licence holders with the terms of such licences.

The Federal Service for Ecological, Technological and Nuclear Surveillance of the Russian Federation (“**Rostekhnadzor**”) is a federal authority which is subordinate directly to the Russian Government and which, among other things, is responsible for keeping the register of industrial safety certificates.

The Federal Antimonopoly Service (“**FAS**”) is authorised to pursue state policy aimed at promoting the development of the commodity markets and competition, at exercising state control over the observance of antimonopoly legislation and at preventing and terminating monopolistic activity, unfair competition and other actions restricting competition. Among other functions, FAS oversees the acquisition of controlling stakes in companies with dominant market positions and activities of natural monopolies. In addition, FAS is authorised to decide on determination of prices (tariffs) and/or their relevant thresholds in the areas of operations of natural monopolies and other regulated entities.

The FAS and the Ministry of Energy of the Russian Federation coordinate activities of various federal executive agencies to address issues in the oil industry, including, among others, issues related to access to Transneft’s pipeline and tariffs for services rendered by Transneft.

Generally, regional authorities with jurisdiction over the specific area in which an oil and gas project, pipeline, refinery or other enterprise is located have substantial authority. Regional and local authorities usually control regional and local (respectively) land-use allocations.

Strategic Investments

Strategic Enterprises

The Law on Strategic Enterprises establishes certain restrictions and special procedures for foreign investments in Russian business entities of strategic importance to the national defence and security of Russia (“**Strategic Enterprises**”).

The Law on Strategic Enterprises sets a general prohibition on consummation of transactions which result in control over Strategic Enterprises, and transactions involving acquisitions, holdings or use of production facilities of Strategic Enterprises, the value of which is 25% or more of the book asset value of such Strategic Enterprises by: (i) foreign states, (ii) international organizations, (iii) foreign corporations and unincorporated foreign organizations which do not report to the Governmental Commission for Control over Foreign Investments in the Russian Federation (the “**Commission**”) on their beneficiaries, beneficial owners and controlling persons (“**non-reporting foreign investors**”) or (iv) organizations controlled by them, including those organized in the Russian Federation.

The Law on Strategic Enterprises provides for a number of exemptions from the Commission clearance requirements. In particular, the Law on Strategic Enterprises shall not apply to transactions concerning Strategic Enterprises where the acquirers in such transactions are entities under control of the Russian Federation, a subject of the Russian Federation or a citizen of the Russian Federation who is its tax

resident, except for Russian individuals with another citizenship. Furthermore, the Law provides for exemption from the clearance requirement in respect of certain categories of transactions undertaken by international financial organisations established in accordance with international treaties to which the Russian Federation is a party or international financial organisations with which the Russian Federation has entered into a treaty. The Russian Government publishes the list of such organisations, which currently includes, *inter alia*, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development and the International Finance Corporation.

Subsoil areas of federal importance

The Law on Strategic Enterprises defines a number of activities that are considered to be strategically important for Russia, including geological survey of subsoil and/or exploration and production of mineral resources within subsoil areas of federal importance (“**Strategic Deposits**”). The criteria for determining whether a subsoil mineral deposit is a Strategic Deposit are set out in the Subsoil Law. These include, *inter alia*, subsoil deposits (i) that include fields with 70 million tonnes or more of recoverable oil reserves and/or 50 billion cubic metres or more of gas reserves; or (ii) that are located in internal sea waters, territorial sea or on the continental shelf of the Russian Federation; or (iii) whose use requires the use of land plots designated for defence or security purposes.

The list of Strategic Deposits is regularly published in an official publication of the Russian Federation. Unless the federal laws provide otherwise, once a subsoil deposit has been included into such list, it will retain its status as a Strategic Deposit, notwithstanding any changes in the requirements set out in the Subsoil Law.

Strategic Deposits, except for Strategic Deposits located on the continental shelf of the Russian Federation and Strategic Deposits located on the territory of the Russian Federation and extending into the continental shelf of the Russian Federation, may be used only by legal entities established in accordance with the laws of the Russian Federation, unless the Russian Government sets out additional restrictions in accordance with the Subsoil Law on the participation of legal entities incorporated in accordance with the Russian legislation with foreign investors’ participation in the auctions for the right to use Strategic Deposits. Strategic Deposits located on the continental shelf of the Russian Federation and Strategic Deposits located on the territory of the Russian Federation and extending into the continental shelf of the Russian Federation may be used only by Russian legal entities (i) which have no less than five years’ experience developing continental shelf deposits in Russia; and (ii) in which the Russian Federation holds more than 50% of the total votes represented by the share capital of such entity, or otherwise controls (directly or indirectly) more than 50% of the total number of votes.

Approval requirements

The Law on Strategic Enterprises generally requires a prior approval of the Commission for the acquisition of direct or indirect control over Strategic Enterprises by a company that is under foreign control. A person is deemed to control a Strategic Enterprise if such person:

- (i) has control, direct or indirect (including under a trust management deed, a partnership agreement, an agency contract or another arrangement or otherwise), over more than 50% of votes represented by voting shares (interests) in the charter capital of the controlled person;
- (ii) has the right or authority (pursuant to an agreement or otherwise) to determine decisions made by the controlled person;
- (iii) has the right to appoint the sole executive body and/or more than 50% of members of the collective executive body of the controlled person and/or has an unconditional ability to elect more than 50% of members of the board of directors (supervisory board) or other collective executive body of the controlled person; or
- (iv) acts as the management company of the controlled person.

The Law on Strategic Enterprises imposes a stricter definition of control (and therefore threshold for approval) in relation to a Strategic Enterprise conducting geological survey and/or exploration and production of hydrocarbons/minerals in Strategic Deposits (the “**Strategic Subsoil Users**”). A person is deemed to control a Strategic Subsoil User if such person:

- (i) has (direct or indirect) control over 25% or more of the votes represented by the voting shares or participatory interests of the Strategic Subsoil User;

- (ii) has the right or authority (pursuant to an agreement or otherwise) to determine decisions made by the Strategic Subsoil User, including the terms of its business operations;
- (iii) has the right to appoint the Strategic Subsoil User's general director and/or 25% or more of the members of its management board;
- (iv) has an unconditional ability to procure the election of 25% or more of the members of the Strategic Subsoil User's board of directors or other collegiate management body; or
- (v) acts as a management company of the Strategic Subsoil User.

Prior approval is also required for transactions involving acquisition, including for use, of production facilities of Strategic Enterprises provided that the value of such production facilities is 25% or more of the book asset value of such Strategic Enterprises.

Foreign non-reporting investors, foreign states, international organizations and organizations controlled by them are required to seek the Commission's prior approval of transactions which result in such investors (i) acquiring direct or indirect control over more than 25% of votes represented by voting shares (interests) in the Strategic Enterprise, or other ability to block the decisions of the management bodies of a Strategic Enterprise, or (ii) acquiring direct or indirect control over more than 5% of votes represented by voting shares (interests) in Strategic Subsoil Users.

At the same time, the Law on Strategic Enterprises exempts from the regime foreign investments in the capital of Strategic Subsoil Users in which the Russian Federation directly or indirectly controls more than 50% of the total number votes prior to consummation of the relevant transactions, provided that it retains such rights after completion of the transactions. The exemption does not cover rules described in the paragraph immediately above regarding foreign investments in the capital of Strategic Subsoil Users by foreign states, international organizations and organizations controlled by them, non-reporting foreign investors.

Licences and Permits

The Licensing Law and the Subsoil Law, as well as other laws and regulations, list activities which can only be performed subject to licences and permits issued by the relevant Russian authorities and establish procedures for issuing such licences and permits. In particular, to conduct its operations, a company may be required to hold licences and permits for, *inter alia*:

- use of the subsoil, see “—*Subsoil Use Licences*”;
- discharge of pollutants into the environment;
- collection, processing, utilisation, detoxification, transportation and placement of class I, II and III hazardous waste;
- operations involving circulation of explosive materials of industrial use;
- operation of inflammable and class I, II and III chemically hazardous facilities; and
- fire extinguishing.

Subsoil Production Licences

Under the Regulation on Licensing of Subsoil Use No. 3314-1 dated 15 July 1992, as amended (the “**Subsoil Licensing Regulation**”), and the Subsoil Law, subsoil areas are provided for the purposes of production of mineral resources for the term of operation of the field, calculated on the basis of a feasibility study for the development of a field providing for the rational use and protection of the subsoil. This regime was introduced in 2000 and did not affect the terms of licences issued prior to January 2000, however, it permits licence holders to apply for extensions of such licences in accordance with the amended Subsoil Law, provided that the licence holder complies with the licence terms and applicable regulations. Prior to January 2000, exploration and production licences had a maximum term of 20 years and combined geological survey, exploration and production licences were issued for a term of up to 25 years. The total maximum term of a geological survey licence provided for in the Subsoil Law is 5 years. Since December 2007 a special term of up to 10 years applies to licences for geological survey of subsoil resources of internal sea waters, territorial sea and the continental shelf of the Russian Federation. As of January 2014 the Subsoil Law also provides for a special term of up to 7 years for geological survey of subsoil resources located fully or partially within the borders of the Republic of Sakha (Yakutia), the Komi Republic, the Kamchatka Krai, the Krasnoyarsk Krai, the Khabarovsk Krai, the

Irkutsk Region, the Magadan Region, the Sakhalin Region, the Nenets Autonomous District, the Chukotka Autonomous District or the Yamalo-Nenets Autonomous District.

A licence holder has the right to develop and sell oil extracted from the area indicated in the licence. The Russian Federation, however, retains ownership of all subsoil deposits at all times, and the licence holder may only have rights to the crude oil or other relevant types of mineral resources when extracted.

Generally, a licence can be held by any business entity, including a legal entity. A subsoil exploration and production licence gives its holder exclusive subsoil use rights with respect to an identified licence area (including subsurface areas) for the term of the licence.

Restrictions related to strategic deposits

The Russian Government may restrict participation in auctions for the right of subsoil use in Strategic Deposits, other than the Strategic Deposits of the continental shelf of the Russian Federation and the Strategic Deposits located in the Russian Federation and extending to its continental shelf, for Russian entities in which foreign investors directly or indirectly hold shares.

In respect of a Strategic Deposit, exploration and production or combined (geological survey, exploration and production) licences may only be issued. Such licences are issued pursuant to a decision of the Russian Government based on the results of an auction, or upon the discovery of a deposit that becomes a Strategic Deposit. Generally, under a combined licence, exploration and production operations, including in a Strategic Deposit, may be performed either in the course or after completion of geological survey operations. This rule does not extend to exploration and production operations performed in a Strategic Deposit by a legal entity controlled by foreign investors or by a foreign investor under a combined licence which may only be performed if the Russian Government so determines in respect of the relevant Strategic Deposit.

Geological survey licences may be issued for subsoil deposits that do not qualify as Strategic Deposits. If in the course of such geological survey a discovery is made which results in the relevant deposit meeting the Strategic Deposit criteria, issuance of the exploration and production licence to the subsoil user that has made the discovery may be denied by decision of the Russian Government if the subsoil user is an entity in which a foreign investor has a direct or indirect interest, and the Russian Government determines that a threat to the national defence and security of Russia has arisen. If the relevant discovery is made under a combined licence by an entity in which a foreign investor has an interest, the Russian Government has the right to terminate the licence.

If issuance of the exploration and production licence is denied, or a combined licence is terminated, as described above, the affected subsoil user is entitled to reimbursement of certain costs it incurred in the prospecting and appraisal of the discovered deposit and (in case of termination of a combined licence) of the one-time payment made under the terms of such licence. This reimbursement and certain other compensation will be payable from the federal budget pursuant to a procedure established by the Russian Government.

Issuance of licences

Most of the currently existing subsoil licences owned by companies derive from (i) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations, or (ii) tender or auction procedures held in the post-Soviet period.

At present, subsoil licences are generally issued by the Federal Agency for Subsoil Use. The Civil Code, the Subsoil Law and the Subsoil Licensing Regulation contain the major requirements relating to tenders and auctions for granting subsoil licences. The Subsoil Law allows for exploration and production licences to be issued without a tender or auction procedure only in a limited number of circumstances, such as when a mineral deposit is discovered by the licence holder who performed geological survey of the discovered mineral deposit at its own expense.

Licences may not be sold or transferred to other persons except in certain limited circumstances specified by the Subsoil Law, such as to companies resulting from reorganisation, licensee's subsidiaries or a licensee's parent, a company that was newly formed for the purpose of holding a transferred licence if the former licensee holds a 50% or greater stake or interest in such newly formed company, provided that the licence is transferred together with the property necessary to operate under the licence.

The Subsoil Law prohibits the transfer of a Strategic Deposit to any entity in which a foreign investor or a group of which a foreign investor is a member has the right to (i) directly or indirectly control 10% or more of its voting shares or interest, (ii) (pursuant to an agreement or otherwise) to determine its decisions, including the terms of its business operations, or (iii) appoint its sole executive body or more than 10% of members of its

collective executive body and/or has an unconditional ability to elect more than 10% of members of its board of directors or another collective management body. Such transfer is only permitted in limited circumstances pursuant to a decision of the Russian Government.

Maintenance and termination of licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. There are typically two parties to any licensing agreement: the federal authority (or its local agency) and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil licence.

Under a licensing agreement, the licensee makes certain environmental, safety and production commitments. For example, the licensee makes a commitment to bring the field into production by a certain date and to extract an agreed upon volume of natural resources each year, as well as to conduct agreed drilling and other exploratory and development activities, comply with the requirements of subsoil rational use and conservation, subsoil use-related safe operations, protect the environment in the licence area from damage and also to provide geological information and data to the relevant authorities. The licence agreement may also contain commitments with respect to the region's social and economic development.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil licence holders with the terms of their licences and applicable legislation.

The licence may be terminated, suspended or limited by the licensing authorities, among other things, upon notice in the following events:

- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- a breach of material terms and conditions of the licence by the licensee;
- repeated violation of the established subsoil use rules by the licensee;
- inability of the licensee to commence operations within a specified period of time and at required production volumes, both as indicated in the licence;
- the occurrence of an emergency situation (natural disasters, war, etc.);
- the liquidation of the licensee;
- failure to report in accordance with the legislation; and
- failure to provide, on time or at all, subsoil geological data as required by the law.

The licensee is also fined in case of a material breach of the license terms. Government authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and Rostekhnadzor, undertake periodic reviews for ensuring compliance by subsoil licence holders with the terms of their licences and applicable legislation. Although the Subsoil Law, as well as administrative law regulations do not specify which terms of a licence are material, failure to pay subsoil taxes and failure to commence operations in a timely manner as provided by licensing agreements have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project would also be likely to constitute violations of material licence terms.

When a licence expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a licence are based on mandatory rules contained in the Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

Compliance with the licence terms is critical to maintaining a licence in force. If the subsoil licence holder fails to fulfil the licence conditions, the licence may be terminated by the licensing authorities with the relevant notice to be given. However, if a subsoil licence holder is unable to meet certain deadlines or achieve certain exploration or production volumes as set forth in a licence, it may apply to amend the relevant licence conditions, although such amendments may be denied.

If a licensee disagrees with a decision of the licensing authorities, including a decision relating to licence termination or the refusal to re-issue an existing licence, the licensee may appeal against the decision in administrative or judicial proceedings. In certain cases the licensee may be given an opportunity to cure a violation within three months of receipt of the notice of violation. If a violation is cured within such a three-month period no termination or other action may be taken.

Extension of licences

The Subsoil Law provides that, upon expiration of a licence, it may be extended at the initiative of the licensee if prospecting, appraisal and development operations need to be completed or remediation activities are required, provided that the relevant subsoil user is not in breach of the licence terms.

Land Use Permits

In addition to a subsoil production licence, Russian oil companies are required to obtain rights to use surface land within the specified licensed area as Russian legislation prohibits any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Under the Land Code, Russian legal entities generally have one of the following options to formalise their rights with regard to land in the Russian Federation: (i) ownership, (ii) lease, (iii) right of free use or (iv) easement.

Most land plots in the Russian Federation are in state or municipal ownership. Such land plots may, by way of bidding in the form of an auction or without bidding, where provided for by the law, or otherwise, be sold, leased or otherwise be granted for use to a third party.

Under the Land Code, the land that is in state and municipal ownership and required for the subsoil use is leased to subsoil users without bidding (auction or tender). The relevant lease will contain a mandatory provision to hold reclamation work in respect of the land plot being leased and will be executed for a term exceeding the term of the subsoil use licence by no more than two years. The term of the land lease, therefore, depends on the term of the licence and may not be shorter than such term.

The law also provides for a right to use the land plot required for the subsoil use by creating an easement. For this purpose, the subsoil user enters into an easement agreement in respect of the relevant land plot.

Where land plots are expected to be used for geological survey, such land plots in state or municipal ownership which have not been earlier granted to individuals or entities may be used without being granted or without creating an easement. In these circumstances the land plot will be used pursuant to a permit issued by a competent authority for the term of the relevant subsoil use licence.

Companies could also have had a right of perpetual use of land granted to them before the Land Code was enacted; however, the Federal Law No. 137-FZ on Introduction of the Land Code dated 25 October 2001, as amended, with certain exceptions, obliged the companies using land based on the right of perpetual use either to purchase the land from, or to enter into a lease in respect of, the land with the relevant federal, regional or municipal authority which owned the land by 1 July 2012. The violation of this requirement results in a penalty under the administrative law provisions in effect as of 1 January 2013.

Fees Payable by Subsoil Production Licensee

The Subsoil Law provides for the basic framework of payments applicable to licence holders, including: (i) one time payments in cases specified in the licence, (ii) regular payments for the subsoil use (i.e., rentals paid for the right to conduct prospecting and exploration works) and (iii) fees for the right to participate in tenders or auctions. In addition, subsoil users must also pay other taxes and fees provided for by the Russian Tax Code.

Environmental Protection

Operations of Russian oil companies are subject to extensive federal and regional environmental laws and regulations. These laws and regulations set standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

As of 1 January 2017, state authorities of the Russian constituents or municipal authorities are required to identify, assess and record the sites environmentally affected by past economic and other activities with respect to which remedial obligations have not been performed or have been performed partially, in particular, to keep the register of sites to remedy such environmental harm. The environmental remedial action is taken by state authorities of the Russian constituents or municipal authorities.

The draft Federal Law On amending the Federal Law On Environment Protection and certain statutory acts of the Russian Federation relating to environmental clean-up and remediation of harm caused and accumulated as a result of past business operations presently pending will require corporate owners of such affected sites to take remedial action with respect to such affected sites. The Environment Protection Law establishes the types of environmental impact, the pollution discharge limits and a “pay-to-pollute” regime. Federal Service for the Supervision of the Use of Natural Resources monitors that the relevant fees are correctly calculated and paid in full and in due time. Pursuant to Decree No. 314, it is generally responsible for controlling environmental

quality and the use of the natural resources. The pollution tariffs have been approved by Decree of the Russian Government No. 913 On Pollution Tariffs and Extra Ratios dated 13 September 2016 (subject to amendments introduced by Decrees of the Russian Government No. 758 dated 29 June 2018 and No. 39 dated 24 January 2020) which establishes the tariff per tonne of pollutants for 2019-2020. The procedure for calculating and charging the pollution fees is set out in the Decree of the Russian Government No. 255 On Calculating and Charging the Pollution Fees dated 03 March 2017 and certain other regulations.

International agreements also set out certain measures that aim to limit greenhouse gas emissions and climate change and are currently in various stages of implementation. For example, in September 2019 the Russian Federation accepted the Paris Agreement on climate change that entered into effect in November 2016. In December 2019, the Russian Government issued a decree on the adoption of the national action plan for the first stage of adaptation to climate change for the period until 2022. This decree outlines the main principles of state climate change policy and contains a plan for enacting laws and regulations with the aim of preventing GHG emissions and climate change. In March 2020, the Russian Government prepared a draft Strategy for Sustainable Development with Low Levels of Greenhouse Emissions until 2050. The draft sets out GHG emission reduction measures and a plan of gradually decreasing levels of GHG emissions until 2050.

Further, from 1 January 2020 to 31 December 2024 twelve cities will participate in testing the quotas system of pollutant emissions into the air. As part of this testing, the Russian Meteorological Service will approve a list of assets for which the pollutant quotas will be established (designated assets) and give notice thereof to businesses which operate the designated assets. After the quotas are in place, such businesses will need to develop action plans to comply with the limits. However, if the goals under the action plan are not reachable, the affected businesses shall carry out the remediation actions at their own cost to improve the air quality at the relevant test site. This law also imposes other obligations on businesses that run the designated assets. Additional fines may be imposed for certain other breaches of environmental regulations. The environmental protection laws provide for an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor's office or other authorised governmental bodies may bring an action, and although there is no private right of action for monetary relief, courts may impose clean-up obligations subject to the agreement of the parties in lieu of or in addition to imposing fines. In certain cases breaches of environmental laws and regulations may also lead to criminal liability of guilty persons under the Criminal Code of the Russian Federation.

Under the Environment Protection Law objects having negative environmental impact are divided into four categories depending on level of impact:

- objects having significant negative environmental impact;
- objects having limited negative environmental impact;
- objects having low environmental impact; and
- objects having minimal negative environmental impact.

The Russian Government determines the criteria for the appropriate category of impact including such factors as level of negative impact on the environment, toxic level of substances contained in the emissions, classification of industrial facilities and others. All objects having negative environmental impact are required to be registered with state authorities. In case a company operated the objects having negative environmental impact is unable to comply with the limits of the pollutant emissions, the company shall develop a plan of environmental protection measures and/or a programme for raising the ecological efficiency.

Subsoil licences generally provide for certain environmental commitments. Although the commitments may be stringent in a particular licence the penalties for failing to comply with such commitments are generally low. However, governmental authorities impose onerous clean-up requirements requiring significant resources. As of 1 March 2017, the clean-up costs incurred by the entity responsible for the harm must be taken into account when determining the extent of environmental harm caused by such entity.

Natural resource development matters are subject to periodic environmental evaluation. While in the past these evaluations generally did not result in substantial restrictions on natural resource exploration and development activities, they are expected to become increasingly strict in the future. Currently, operations that may cause damage to the environment conducted without a state environmental expert examination may trigger negative consequences. Thus, if the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend such operations or a court action may be brought to limit or ban such operations and require the company to remedy the effects of the violation. Any company or employee who fails to comply with environmental regulations may be subject

to administrative and/or civil liability and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to fines. The limitation period for compensation claims regarding damages caused by pollution is 20 years.

The Subsoil Law and the Subsoil Licensing Regulation also provide that a subsoil licence must include a provision establishing the procedure for the restoration and recultivation of the land plot upon termination of the subsoil licence. This procedure generally requires the licensee to submit, for the approval of regional authorities, a proposed plan detailing the timeframe and actions the licensee will undertake to restore and recultivate the land plot. Additional requirements in respect of environment remediation, land recultivation and compensation of damage to the environment are prescribed by the Environment Protection Law. The Environment Protection Law also contemplates monetary incentives to encourage legal entities and individual entrepreneurs to take actions mitigating the adverse impact on the environment. In particular, starting from 1 January 2020, the pollution fees are calculated by reference to varying ratios that depend on the extent of environmental impact.

Oil Spills and Oil Contamination

Except for the general obligation to compensate for the harm caused to the environment as a result of its contamination provided for by the Environmental Protection Law, the Russian Government has adopted certain regulations setting out requirements to the action plans and the principles according to which oil and oil product spill prevention and response plans must be developed in respect of spills on the continental shelf of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation. In addition to the obligations to train employees and to arrange for the special technical equipment to clean up oil spills to be owned and available, the law requires, for the purposes of preventing and cleaning up oil and oil product spills on the continental shelf of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation, that the companies which engage, among other things, in prospecting, exploration and production of hydrocarbons, and in transporting and storing oil and oil products on the continental shelf of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation, inform the state authorities about the financial provision to prevent and clean up oil and oil product spills and of the scope of such financial provision.

On 27 March 2018 the State Duma adopted in first reading a Bill which is intended to harmonize the regulation applicable to prevention and liquidation of oil and oil product spills. The Bill applies the above notification-type approval of the plan to prevent and liquidate the oil and oil product spills, to the land properties as well. Moreover, the Land Code provides for certain obligations arising with the persons whose activities have caused the land quality to deteriorate. Where the impact on the land has caused such environmental degradation and/or topsoil damage that, as a result, the land may no longer be cultivated and may not be reclaimed to remedy such impact, such land will be subject to conservation, while the persons whose activities have resulted in such conservation being required, will reimburse the owners of such land for their losses incurred.

Gas Flaring Operations

Russian oil producers flare a portion of the gas produced in their fields. Consequently, such oil producers are subject to state-imposed charges for excess gas flared. These charges are levied in accordance with regulations of the Ministry of Natural Resources and Ecology of the Russian Federation and applicable regulations of the Russian Government. Limitations on gas flaring may be established in the licences.

The current gas flaring threshold is at the level of 5% of the amount of associated gas produced. In case of flaring of associated gas in the amount less than 5% of the amount of associated gas produced, emission charges are subject to a base fee. If the amount of associated gas flared exceeds 5%, emission charges increase per a coefficient equal to 25. Some additional coefficients may apply.

Crude Oil and Refined Product Transportation Regime

From 1995, as part of a scheme to deregulate prices and liberalise export controls, the Russian Government established equal pipeline and sea terminal access procedures for all oil companies in proportion to the actual production volume of each company.

In August 2001, the Russian Government began implementing reforms relating to the allocation of pipeline and sea terminal access rights, and since September 2001, pipeline and sea terminal access rights have been distributed among oil producers and their parent companies in proportion to the volumes of oil they have produced and actually delivered to the Transneft pipeline system (and not solely in proportion to the volumes of oil they produce).

The allocation of pipeline and sea terminal access rights is currently overseen by the Ministry of Energy of the Russian Federation. The Ministry of Energy of the Russian Federation approves on a quarterly basis schedules that, *among other things*, detail the precise volumes of oil that each oil producer can pump through the Transneft pipeline system. Once access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they do have some limited flexibility in altering delivery routes.

Transneft has a very limited ability to transport individual batches of crude oil, with the result that crude oil of differing qualities delivered in the pipeline system is blended. Transneft does not currently operate a “quality bank” system whereby companies shipping heavy and sour crude oil would compensate the shippers of higher-quality crude oil for the deterioration in the crude quality arising from blending.

Due to lack of a quality bank system, sales of crude oil that are transported through the Transneft pipeline system are priced as the crude oil blend that results from the combination of different types and qualities of crude oil in the pipeline system, which is usually referred to as “Urals blend” crude oil. As a result, the price for such oil may be lower than the price that a producer could get for oil of the same quality if it could transport oil independently of Transneft.

As Transneft is a natural monopoly, the tariffs for using its pipelines are regulated by the FAS which is in charge of analysing and setting such tariffs and controlling their application.

Production Sharing Agreements

The PSA Law sets forth general principles for investment in the exploration and production of minerals on a “production sharing” basis.

A production sharing agreement (“PSA”) is a contract between the Russian Government and an investor in which the investor agrees to bear the costs and risks of exploration and production of a mineral resource and the parties agree predetermined shares of the output.

The PSA Law governs petroleum operations carried out pursuant to PSAs. It establishes the principal legal framework for state regulation of PSAs relating to oil and gas field development and production. Under the PSA Law, the Russian Federation as a state is represented (in its relations with investors under PSAs) by the Russian Government or the state bodies authorised by it. The PSA Law contains stabilisation rules purporting to protect investors against adverse changes in federal and regional laws and regulations, including certain uncertainties in tax laws and regulations, save for legislative amendments of health and safety standardisation requirements and documents and environmental protection requirements. The PSA Law provides that operations conducted under a PSA pursuant to the PSA Law will be governed by the PSA itself. In case of conflict between the PSA Law and other Russian law requirements the PSA Law shall prevail; therefore the PSA shall not be affected by contrary provisions of any other laws, including the Subsoil Law.

Since the PSA Law was enacted, the legislature has approved a number of oil fields as eligible for PSA. Currently, few of these fields are subject to effective PSAs.

Current System of Oil and Gas-Related Taxes and Duties

Oil and Gas-Related Taxes and Duties

See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Main Macroeconomic Factors Affecting Our Results of Operations—Taxation*” for information on the tax regime for the production and sale of crude oil, gas and refined products in Russia, including with respect to crude oil extraction tax rates, natural gas extraction tax rates, crude oil export duty rates, export duty rates on refined products, and excise taxes on refined products.

Regular Payments for the Use of Subsoil

Regular subsoil use payments depend on the size of the licence area (subsoil plot) provided to the subsoil user (the licensee), the kind of natural resources and location of subsoil plot (offshore or onshore plot). The current annual minimum and maximum rates of regular payments are set as follows: (1) the rate for the right to prospect and evaluate oil fields ranges from RUB 120 to RUB 540 per sq. km (from RUB 50 to RUB 225 per sq. km for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)); and (2) the rate for the right to explore oil fields ranges from RUB 5,000 to RUB 20,000 per sq. km (from RUB 4,000 to RUB 16,000 per sq. km for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)).

Protection of Competition

The anti-monopoly legislation of the Russian Federation is based on the Antimonopoly Law which sets forth the framework for regulation and other regulations governing the anti-monopoly issues. It provides for certain restrictions, such as an obligation to obtain the preliminary consent of the antimonopoly authorities for actions/transactions that meet certain criteria (including, from 2016 onwards, entering into joint operations agreements with competitors without formation of a body corporate). The Antimonopoly Law also prohibits certain actions by companies, holding a dominant market position (for example, setting monopolistically high or low prices for goods, works or services), which result in prevention, limitation, elimination of competition or infringement of interests of other entrepreneurs or public consumers. It is also prohibited agreements or concerted actions of companies, restricting competition, conducting unfair competition. The antimonopoly authorities have ample powers, including the right to conduct investigations with regard to compliance with the requirements of the Antimonopoly Law, to issue binding orders to business entities in cases specified by the Antimonopoly Law, as well as other powers. Failure to comply with anti-monopoly requirements may result in administrative fines, criminal liability of the managers, as well as courts' invalidation of transactions that violate the Antimonopoly Law. See *“Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—If the FAS were to conclude that we had conducted our business in contravention of antimonopoly legislation, it could impose administrative sanctions on us”* and *“—If the FAS were to conclude that we acquired any shares (equity interests) or assets in contravention of antimonopoly legislation, it could impose administrative sanctions on us and/or file a claim seeking invalidation of the transactions related to such shares (equity interests) or assets”*.

Health and Safety

The principal law regulating the safety of employees at industrial workplaces is Federal Law No. 116-FZ on Industrial Safety of Hazardous Industrial Objects dated 21 July 1997, as amended (the **“Safety Law”**) as well as the Federal Norms and Rules of Industry Safety *“Rules of Safety in the Oil and Gas Industry”* enacted by the Order of Rostekhnadzor dated 12 March 2013 No. 101, as amended.

Oil companies that operate hazardous facilities have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation dated 30 December 2001, as amended (the **“Labour Code”**). In particular, they must arrange for trainings and personnel industrial safety appraisals, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. Any construction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review which is conducted by Rostekhnadzor, which has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous facility where the accident took place bears all costs of this investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may impose administrative liability on persons for violation of requirements of industrial safety in accordance with the procedure established by Russian legislation as well as send to the law enforcement agencies information and materials to hold such persons criminally liable.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages, and in certain cases its activity may be suspended for a period of up to 90 days.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code, various federal laws, such as the Law of the Russian Federation No. 1032-1 on Employment in the Russian Federation dated 19 April 1991, as amended, and other regulations adopted in accordance with these laws.

Employment Contracts

Generally, the employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed-term employment contracts. However, an employment contract may be entered into for a fixed term of up to 5 years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by federal law. An employer may terminate an employment contract only on the basis of the specific grounds set out in the Labour Code.

Any termination of an employment contract by an employer that is inconsistent with the Labour Code requirements may be challenged by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee

is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work Time and Salary

The Labour Code generally sets the regular working week at 40 hours. Any time an employee, upon instructions from management, works beyond 40 hours per week, as well as on public holidays and weekends, he/she must be compensated at a higher remuneration amount or must be compensated by providing additional paid vacation as per the employee's choice. Annual paid leave under the law is 28 calendar days. Employees who work in hazardous, strenuous or severe conditions may be entitled to an additional paid vacation of not less than 7 calendar days. Generally, such categories of employees are also entitled to reduced working hours (not more than 36 hours per week) and a higher salary rate (not less than 4% of the base rate (fixed salary) approved for employees with the regular working conditions). Similarly, additional benefits, including additional pay leaves and monetary compensations, must be provided to employees working in Russia's far north and certain other Russian regions, including those where we operate.

Trade Unions

The activities of trade unions are generally governed by the Federal Law No. 10-FZ on Trade Unions, Their Rights and Guarantee of Their Activity dated 12 January 1996, as amended (the "**Trade Union Law**"). The Trade Union Law defines a trade union as a voluntary union of individuals with common industrial, professional interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. As part of their activities, trade unions represent interests of employees in collective negotiations, execution and amending of collective contracts and agreements, monitor compliance with labour laws, collective contracts and other agreements, represent their members and other employees in individual and collective labour disputes with management and monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

The trade union may apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may participate in resolving collective labour disputes and have the right to organise and conduct strikes and other collective actions. Russian laws require that companies cooperate with trade unions and do not interfere with their activities.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for strikes to be considered legal. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract.

GENERAL INFORMATION

1. The Regulation S Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following reference numbers:

	ISIN	Common Code
Regulation S Global Note	XS2159874002	215987400

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855, Luxembourg.

2. The Rule 144A Global Note has been accepted for clearance through the facilities of DTC under the following reference numbers:

	ISIN	CUSIP
Rule 144A Global Note	US54988LAB27	54988L AB2

The address of DTC is 55 Water Street, New York, New York 10041-0099, United States of America.

3. It is expected that listing of the notes on the Official List and admission of the notes to trading on the London Stock Exchange's regulated market will be granted on or about 6 May 2020, subject only to the issue of the Global Notes. Prior to listing and admission to trading, however, dealing will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the day of the transaction.
4. The Issuer and LUKOIL have obtained all necessary consents, approvals and authorisations in The Netherlands and the Russian Federation in connection with the issue and performance of the notes and the guarantee in respect of the notes. The issue of the notes was authorised by a resolution of the Board of Directors of the Issuer dated 28 April 2020.
5. Except for the impact and potential impact of (i) the coronavirus outbreak (COVID-19), (ii) the inability of OPEC+ countries to agree on production limitations in March 2020 and (iii) the subsequent OPEC+ agreement in April 2020 as disclosed in "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations*", "*—Public health crises and threats could have a material adverse effect on our business, financial condition and results of operation*" and in "*—Restrictions on production could materially adversely affect our business, financial condition and results of operations*", there has been no material adverse change in the prospects of the Group since 31 December 2019, the date of our last published audited financial statements.
6. Except for the impact and potential impact of (i) the coronavirus outbreak (COVID-19), (ii) the inability of OPEC+ countries to agree on production limitations in March 2020 and (iii) the subsequent OPEC+ agreement in April 2020 as disclosed in "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—A substantial or prolonged decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations*", "*—Public health crises and threats could have a material adverse effect on our business, financial condition and results of operations*" and in "*—Restrictions on production could materially adversely affect our business, financial condition and results of operations*", there has been no significant change in the financial performance or financial position of the Group since 31 December 2019, the end of the last financial period for which audited financial information has been published.
7. There has been no material adverse change in the prospects of the Issuer since the date of its incorporation.
8. There has been no significant change in the financial performance or financial position of the Issuer since the date of its incorporation.
9. Copies of the latest annual report and accounts of LUKOIL may be obtained, and copies of the trust deed constituting the notes, including the guarantee, and the agency agreement will be available for inspection,

at the specified offices of each of the Agents during normal business hours, so long as any of the notes is outstanding.

10. The annual consolidated financial statements of LUKOIL included in this prospectus have been audited by JSC KPMG, independent auditors, whose address is 10 Presnenskaya Naberezhnaya, 123112 Moscow, Russia. JSC KPMG is a member of the Self-regulatory Organisation of Auditors Association “Sodruzhestvo”.
11. Copies (and accurate/direct English translations where the document in question is not in English) of the following documents may be inspected at the offices of Akin Gump LLP, Ten Bishops Square, London E1 6EG, United Kingdom during usual business hours on any weekday (Saturdays and public holidays excepted) for the life of this prospectus:
 - (i) Charter of LUKOIL;
 - (ii) the Articles of Association of the Issuer;
 - (iii) the reserves reports audited by Miller and Lents referred to in this prospectus;
 - (iv) the audited annual consolidated accounts of the Group prepared in accordance with IFRS as of and for the years ended 31 December 2019, 2018 and 2017; and
 - (v) this prospectus together with any supplement to this prospectus or further prospectus.
9. A copy of this prospectus may be found at the National Storage Mechanism of the FCA at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>.
10. Copies of the Charter of LUKOIL and the audited annual consolidated accounts of the Group prepared in accordance with IFRS as of and for the years ended 31 December 2019, 2018 and 2017 may be found at LUKOIL’s website at www.lukoil.com.
11. The noteholders should note that the Trustee may act, or not act, and rely on (and shall have no liability to noteholders for doing so) certificates or reports provided by our auditors whether or not addressed to the Trustee and whether or not any such certificate or report is subject to any limit on the liability of our auditors (whether by reference to a monetary cap or by reference to the methodology to be employed in producing the same).
12. Other than as disclosed in this prospectus, there are no material contracts not entered into in the ordinary course of the Issuer’s or LUKOIL’s business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer’s or LUKOIL’s ability to meet its obligations to noteholders in respect of the notes being issued.

GLOSSARY OF TERMS

The expressions below shall have the following meanings throughout this prospectus unless the context requires otherwise:

References to:

- “**crude oil**” are to oil and gas condensate
- “**gas**” are to non-associated gas (i.e., natural gas) and associated gas
- “**mbls**” means thousand barrels
- “**mmbls**” means million barrels
- “**boe**” means barrels of oil equivalent
- “**mboe**” means thousand barrels of oil equivalent
- “**mmboe**” means million barrels of oil equivalent
- “**mmcf**” means million cubic feet
- “**bcf**” means billion cubic feet
- “**mcm**” means thousand cubic metres
- “**mmcm**” means million cubic metres
- “**bcm**” means billion cubic metres
- “**tonne**” means metric tonne, or 1,000 kilograms
- “**bpd**” means barrels per day
- “**MW**” means megawatt
- “**GW**” means gigawatt
- “**kWh**” means kilowatt hour
- “**Gcal**” means giga calories
- “**sq. km**” means thousand square metres
- “**sq. mi**” means square miles.

“**2D seismic**” means seismic data that is acquired and processed to yield a two-dimensional picture of the subsurface.

“**3D seismic**” means seismic data that is acquired and processed to yield a three-dimensional picture of the subsurface.

“**completion**” means the installation of permanent equipment for the production of oil or gas.

“**downstream**” is a term that includes refining, transportation and sale of crude oil, natural gas and refined products; production and sale of petrochemical products; generation, transportation and sales of electricity and heat, as well as related services.

“**field**” means an area consisting of a single or multiple reservoirs all grouped in or related to the same individual geological structure or stratigraphic condition.

“natural gas” means petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas) and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; wet gas is partially liquid under atmospheric pressure.

“operator” means a company appointed by venture stake holders to take primary responsibility for day-to-day operations of exploration and production activities.

“Nelson Complexity Index” is a measure of the complexity (the secondary conversion capacity in comparison to the primary distillation capacity) of a refinery.

“petrochemicals” means chemicals such as ethylene, propylene and benzene that are derived from petroleum.

“petroleum” is a collective term for hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.

“reservoir” means a porous and permeable underground rock formation where crude oil or gas has naturally accumulated.

“royalty” is a tax on production that is equal to the royalty percentage multiplied by the gross revenue attributable to the interest of the Company.

“seismic” is the use of shock waves generated by controlled explosions to ascertain the nature and contour of geological structures.

“thermocracking” means the use of heat to reduce the size of the hydrocarbon molecular structure and convert heavy oils into lighter, value-added products.

“upstream” is a term that includes exploration and development of oil and gas fields and the production of oil and gas.

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PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019



Independent Auditors' Report

To the Shareholders of PJSC LUKOIL

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Audited entity: Public Joint Stock Company "Oil Company" (LUKOIL)

Registered No. in the United State Register of Legal Entities: 100770035789

Moscow, Russia

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

Registration No. in the United State Register of Legal Entities: 1007700125825

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

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

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

The key audit matter	How the matter was addressed in our audit
<p>Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2019. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.</p>	<p>In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models.</p> <p>We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.</p>

Estimation of oil and gas reserves and resources

Please refer to the Note 4 in the consolidated financial statements.

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

	accounting for depreciation, depletion and amortization.
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Other Information

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be

communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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


A.I. Oussov
JSC "KPMG"
Moscow, Russia
10 March 2020



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

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

President of PJSC LUKOIL
Alekperov V.Y.

Chief accountant of PJSC LUKOIL
Verkhov V.A.

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

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

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

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

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

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

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

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

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

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

Note 1. Organisation and environment

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

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

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

Business and economic environment

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

Note 2. Basis of preparation

Statement of compliance

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

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

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

Functional and presentation currency

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

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

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

Note 3. Summary of significant accounting policies

Principles of consolidation

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

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

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

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

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

Business combinations

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

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Note 3. Summary of significant accounting policies (continued)

Non-controlling interests

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

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

Foreign operations

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

Note 3. Summary of significant accounting policies (continued)

Revenues

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

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

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

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

Cash and cash equivalents

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

Financial assets

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

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

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

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

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

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

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

Note 3. Summary of significant accounting policies (continued)

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

Non-derivative financial liabilities

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

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

Derivative instruments

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

Inventories

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

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

Property, plant and equipment

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

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

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

Note 3. Summary of significant accounting policies (continued)

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

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

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

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

Production and related overhead costs are expensed as incurred.

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

Impairment of non-current non-financial assets

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

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

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

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

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

Note 3. Summary of significant accounting policies (continued)

Asset retirement obligations

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

Assets classified as held for sale

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

Income taxes

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

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Note 3. Summary of significant accounting policies (continued)

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

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

Treasury shares

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

Earnings per share

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

Provisions and contingencies

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

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

Environmental expenditures

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

Share-based payments

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

Note 3. Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures

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

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

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

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

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

Lease liabilities reconciliation

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

For further disclosures please refer to Note 28 “Lease”.

Note 4. Use of estimates and judgments

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

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

Note 4. Use of estimates and judgments (continued)

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

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

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

Note 5. New standards and interpretations not yet adopted

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

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

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

Note 6. Cash and cash equivalents

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

Note 7. Accounts receivables, net

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

Note 8. Other current financial assets

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

Note 9. Inventories

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

Note 10. Prepaid taxes

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

Note 11. Other current assets

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

Note 12. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

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

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

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

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

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

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

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

Note 13. Property, plant and equipment

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

Note 13. Property, plant and equipment (continued)

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

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

Exploration and evaluation assets

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

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

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

Note 13. Property, plant and equipment (continued)

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

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

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

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

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

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

Note 14. Other non-current financial assets

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

Note 15. Acquisitions of interests in the projects

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

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

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

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

Note 16. Goodwill and other intangible assets

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

Note 16. Goodwill and other intangible assets (continued)

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

Goodwill was tested for impairment and no impairment was identified.

Note 17. Accounts payable

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

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

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

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

Note 19. Long-term debt

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

Long-term loans and borrowings

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

US dollar non-convertible bonds

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

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

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

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

Note 19. Long-term debt (continued)

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

Reconciliation of liabilities arising from financing activities

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

Note 20. Taxes payable

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

Note 21. Other current liabilities

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

Note 22. Provisions

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

Asset retirement obligations changed as follows during 2019 and 2018:

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

Note 23. Pension liabilities

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

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

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

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

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

Note 24. Equity

Common shares

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

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

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

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

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

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

Dividends

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

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

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

Earnings per share

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

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

Note 25. Personnel expenses

Personnel expenses were as follows:

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

Note 26. Finance income and costs

Finance income was as follows:

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

Finance costs were as follows:

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

Note 27. Other income and expenses

Other income was as follows:

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

Other expenses were as follows:

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

Note 28. Lease

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

Note 28. Lease (continued)

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

Right-of-use assets:

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

Lease liabilities:

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

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

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

Note 29. Income tax

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

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

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

Income tax was as follows:

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

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Note 29. Income tax (continued)

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

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

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities.

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

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

Note 29. Income tax (continued)

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

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

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

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

Amounts recognised in other comprehensive income during 2019:

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

Amounts recognised in other comprehensive income during 2018:

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

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

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

Note 30. Commitments and contingencies

Capital commitments

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

Insurance

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

Environmental liabilities

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

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

Social assets

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

Taxation environment

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

Note 30. Commitments and contingencies (continued)

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

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

Litigation and claims

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

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

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

Note 30. Commitments and contingencies (continued)

Political situation

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

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

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

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

Other matters

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

Note 31. Related party transactions

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

Note 31. Related party transactions (continued)

Outstanding balances with related parties were as follows:

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

Related party transactions were as follows:

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

Key management remuneration

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

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

Note 32. Compensation plan

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

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

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

Note 33. Segment information

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

Note 33. Segment information (continued)

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

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

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

For comparison purposes earlier periods were restated accordingly.

Operating segments

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

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Note 33. Segment information (continued)

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

Geographical segments

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

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

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Note 33. Segment information (continued)

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

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

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

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

Note 34. Subsidiaries

The most significant subsidiaries of the Group are presented below:

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

Note 35. Fair value

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

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

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

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

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

Note 36. Capital and risk management

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

Note 36. Capital and risk management (continued)

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

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

Credit risk

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

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

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

Trade and other receivables

Analysis of the aging of receivables:

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

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

Allowance for expected credit losses changed as follows during 2019:

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

Note 36. Capital and risk management (continued)

Allowance for expected credit losses changed as follows during 2018:

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

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

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

Liquidity risk

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

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

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

Note 36. Capital and risk management (continued)

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

Currency risk

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

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

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

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

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

Note 36. Capital and risk management (continued)

The following exchange rates applied:

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

Sensitivity analysis

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

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

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

Interest rate risk

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

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

The interest rate profiles of the Group are presented below:

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

Sensitivity analysis for variable rate instruments

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

Note 36. Capital and risk management (continued)

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

Capital management

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

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

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

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

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

- I. Capitalised costs relating to oil and gas producing activities.
- II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
- III. Results of operations for oil and gas producing activities.
- IV. Reserve quantity information.
- V. Standardised measure of discounted future net cash flows.
- VI. Principal sources of changes in the standardised measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalised costs relating to oil and gas producing activities

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

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

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

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

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

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)**III. Results of operations for oil and gas producing activities**

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

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

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

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which according to geological and engineering data are going to be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. Existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

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

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

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

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

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

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

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

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

V. Standardised measure of discounted future net cash flows

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

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

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

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

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***VI. Principal sources of changes in the standardised measure of discounted future net cash flows***

Consolidated companies	2019	2018
Discounted present value at 1 January	5,636,665	2,859,198
Net changes due to purchases and sales of minerals in place	31,212	1,367
Sales and transfers of oil and gas produced, net of production costs	(901,981)	(876,998)
Net changes in prices and production costs estimates	(4,542,732)	11,583,655
Net changes in mineral extraction taxes	2,640,183	(8,206,395)
Extensions and discoveries, less related costs	210,417	257,337
Previously estimated development cost incurred during the year	308,689	300,233
Revisions of previous quantity estimates	(6,476)	31,469
Net change in income taxes	389,446	(626,197)
Accretion of discount	616,850	312,181
Other changes	(155,128)	815
Discounted present value at 31 December	4,227,145	5,636,665
Group's share in equity companies	2019	2018
Discounted present value at 1 January	158,208	94,786
Sales and transfers of oil and gas produced, net of production costs	(40,684)	(41,773)
Net changes in prices and production costs estimates	(122,290)	227,904
Net changes in mineral extraction taxes	69,049	(131,737)
Extensions and discoveries, less related costs	452	4,258
Previously estimated development cost incurred during the year	38,478	29,688
Revisions of previous quantity estimates	1,254	15,001
Net change in income taxes	18,370	(46,305)
Accretion of discount	22,222	11,273
Other changes	(19,486)	(4,887)
Discounted present value at 31 December	125,573	158,208



PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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

Please refer to the Note 12 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2018. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.</p>	<p>In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models.</p> <p>We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.</p>

Estimation of oil and gas reserves and resources

Please refer to the Note 4 in the consolidated financial statements.

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

Other Information

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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



A.I. Oussov
JSC "KPMG"
Moscow, Russia

4 March 2019

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

	Note	31 December 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	6	492,650	330,390
Accounts receivable, net	7	429,945	418,272
Other current financial assets		26,200	19,561
Inventories	8	381,737	398,186
Prepaid taxes	9	95,611	87,338
Other current assets	10	52,336	54,367
Total current assets		1,478,479	1,308,114
Property, plant and equipment	12	3,829,164	3,575,165
Investments in associates and joint ventures	11	228,053	164,286
Other non-current financial assets	13	82,568	79,717
Deferred income tax assets	26	31,041	25,128
Goodwill and other intangible assets	14	41,765	41,304
Other non-current assets		41,312	32,501
Total non-current assets		4,253,903	3,918,101
Total assets		5,732,382	5,226,215
Liabilities and equity			
Current liabilities			
Accounts payable	15	547,128	559,977
Short-term borrowings and current portion of long-term debt	16	99,625	128,713
Taxes payable	18	123,974	118,484
Provisions	20, 21	38,266	58,253
Other current liabilities	19	105,567	93,420
Total current liabilities		914,560	958,847
Long-term debt	17	435,422	487,647
Deferred income tax liabilities	26	258,836	237,980
Provisions	20, 21	47,923	47,962
Other non-current liabilities		2,115	3,380
Total non-current liabilities		744,296	776,969
Total liabilities		1,658,856	1,735,816
Equity	22		
Share capital		1,015	1,151
Treasury shares		(134,810)	(251,089)
Additional paid-in capital		39,173	129,641
Other reserves		196,554	27,090
Retained earnings		3,963,628	3,576,158
Total equity attributable to PJSC LUKOIL shareholders		4,065,560	3,482,951
Non-controlling interests		7,966	7,448
Total equity		4,073,526	3,490,399
Total liabilities and equity		5,732,382	5,226,215

President of PJSC LUKOIL
Alekperov V.Y.

Chief accountant of PJSC LUKOIL
Verkhov V.A.

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

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

	Note	2018	2017
Revenues			
Sales (including excise and export tariffs)	31	8,035,889	5,936,705
Costs and other deductions			
Operating expenses		(464,467)	(456,765)
Cost of purchased crude oil, gas and products		(4,534,244)	(3,129,864)
Transportation expenses		(270,153)	(272,792)
Selling, general and administrative expenses		(192,433)	(165,331)
Depreciation, depletion and amortisation		(343,085)	(325,054)
Taxes other than income taxes		(899,383)	(606,510)
Excise and export tariffs		(556,827)	(461,525)
Exploration expenses		(3,582)	(12,348)
Profit from operating activities		771,715	506,516
Finance income	24	19,530	15,151
Finance costs	24	(38,298)	(27,331)
Equity share in income of affiliates	11	25,243	16,864
Foreign exchange gain (loss)		33,763	(19,948)
Other (expenses) income	25	(38,934)	32,932
Profit before income taxes		773,019	524,184
Current income taxes		(137,062)	(99,976)
Deferred income taxes		(14,855)	(3,786)
Total income tax expense	26	(151,917)	(103,762)
Profit for the year		621,102	420,422
Profit for the year attributable to non-controlling interests		(1,928)	(1,617)
Profit for the year attributable to PJSC LUKOIL shareholders		619,174	418,805
Other comprehensive income (loss), net of income taxes			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		172,037	2,626
<i>Items that will never be reclassified to profit or loss:</i>			
Change in fair value of financial assets at fair value through other comprehensive income		(2,393)	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	21	(196)	(2,325)
Other comprehensive income (loss)		169,448	(1,879)
Total comprehensive income for the year		790,550	418,543
Total comprehensive income for the year attributable to non-controlling interests		(1,912)	(1,650)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		788,638	416,893
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):			
Basic	22	874.47	589.14
Diluted		865.19	589.14

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

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

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	3,482,951	7,448	3,490,399
Adjustment on adoption of IFRS 9, net of tax	-	-	-	-	(6,831)	(6,831)	-	(6,831)
1 January 2018	1,151	(251,089)	129,641	27,090	3,569,327	3,476,120	7,448	3,483,568
Profit for the year	-	-	-	-	619,174	619,174	1,928	621,102
Other comprehensive income	-	-	-	169,464	-	169,464	(16)	169,448
Total comprehensive income				169,464	619,174	788,638	1,912	790,550
Dividends on common stock	-	-	-	-	(158,635)	(158,635)	-	(158,635)
Stock purchased	-	(62,916)	-	-	-	(62,916)	-	(62,916)
Equity-settled share-based compensation plan	-	-	-	-	22,284	22,284	-	22,284
Share capital reduction	(136)	179,195	(90,537)	-	(88,522)	-	-	-
Changes in non-controlling interests	-	-	69	-	-	69	(1,394)	(1,325)
31 December 2018	1,015	(134,810)	39,173	196,554	3,963,628	4,065,560	7,966	4,073,526
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	3,220,880	6,784	3,227,664
Profit for the year	-	-	-	-	418,805	418,805	1,617	420,422
Other comprehensive income:	-	-	-	(1,885)	(27)	(1,912)	33	(1,879)
Total comprehensive income (loss)				(1,885)	418,778	416,893	1,650	418,543
Dividends on common shares	-	-	-	-	(145,475)	(145,475)	-	(145,475)
Stock purchased	-	(9,474)	-	-	-	(9,474)	-	(9,474)
Changes in non-controlling interests	-	-	127	-	-	127	(986)	(859)
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	3,482,951	7,448	3,490,399

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

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

	Note	2018	2017
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		619,174	418,805
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		343,085	325,054
Equity share in income of affiliates, net of dividends received		(17,956)	(7,401)
Dry hole write-offs		1,667	9,445
Loss (gain) on disposals and impairments of assets		26,061	(39,351)
Income tax expense		151,917	103,762
Non-cash foreign exchange (gain) loss		(33,041)	20,917
Finance income		(19,530)	(15,151)
Finance costs		38,298	27,331
Allowance for expected credit losses		(949)	6,139
Equity-settled share-based compensation plan		31,359	-
All other items – net		6,083	4,020
Changes in operating assets and liabilities:			
Trade accounts receivable		23,877	(84,055)
Inventories		71,565	(9,350)
Accounts payable		(92,508)	27,720
Other taxes		(8,460)	21,538
Other current assets and liabilities		(28,066)	19,164
Income tax paid		(133,064)	(88,323)
Dividends received		7,527	7,907
Interests received		19,612	10,319
Net cash provided by operating activities		1,006,651	758,490
Cash flows from investing activities			
Acquisition of licenses		(153)	(612)
Capital expenditures		(451,526)	(511,496)
Proceeds from sale of property, plant and equipment		4,765	1,649
Purchases of financial assets		(7,535)	(5,926)
Proceeds from sale of financial assets		36,309	12,309
Sale of subsidiaries, net of cash disposed		-	80,939
Sale of equity method affiliates		-	957
Acquisitions of subsidiaries, net of cash acquired		-	(7,391)
Acquisitions of equity method affiliates		(2,252)	(3,715)
Net cash used in investing activities		(420,392)	(433,286)
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		19,502	9,526
Principal repayments of short-term borrowings		(10,909)	(7,575)
Proceeds from issuance of long-term debt		39,786	68,049
Principal repayments of long-term debt		(256,771)	(127,606)
Interests paid		(39,921)	(38,872)
Dividends paid on Company common shares		(158,370)	(138,810)
Dividends paid to non-controlling interest shareholders		(1,995)	(2,689)
Financing received from non-controlling interest shareholders		118	31
Purchase of Company's stock		(59,993)	(9,474)
Sale of non-controlling interests		4	30
Purchases of non-controlling interest		-	(5)
Net cash used in financing activities		(468,549)	(247,395)
Effect of exchange rate changes on cash and cash equivalents		44,550	(8,786)
Net increase in cash and cash equivalents		162,260	69,023
Cash and cash equivalents at beginning of year		330,390	261,367
Cash and cash equivalents at end of year	6	492,650	330,390

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

Note 1. Organisation and environment

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

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

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

Business and economic environment

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

Note 2. Basis of preparation

Statement of compliance

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

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

The consolidated financial statements were authorised by the President of the Company on 4 March 2019.

Functional and presentation currency

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

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

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

Note 3. Summary of significant accounting policies

Principles of consolidation

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

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

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

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

Business combinations

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

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

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

Note 3. Summary of significant accounting policies (continued)

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

Foreign operations

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

Revenues

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

Note 3. Summary of significant accounting policies (continued)

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

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

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

Cash and cash equivalents

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

Financial assets

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

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

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

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

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

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

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

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

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Note 3. Summary of significant accounting policies (continued)

Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

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

Derivative instruments

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

Inventories

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

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

Property, plant and equipment

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

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

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

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

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

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

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

Production and related overhead costs are expensed as incurred.

Note 3. Summary of significant accounting policies (continued)

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

Impairment of non-current non-financial assets

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

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

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

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

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

Asset retirement obligations

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

Assets classified as held for sale

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

Note 3. Summary of significant accounting policies (continued)

Income taxes

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

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

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

Treasury shares

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

Note 3. Summary of significant accounting policies (continued)

Earnings per share

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

Provisions and contingencies

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

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

Environmental expenditures

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

Share-based payments

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

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial instruments* effective as of 1 January 2018.

Accounting policies effective before 1 January 2018

Revenues

Before 1 January 2018, revenues were recognised when title passed to customers at which point the risks and rewards of ownership were assumed by the customer and the price was fixed or determinable.

Financial assets

Before 1 January 2018, the Group classified non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets were designated at fair value through profit or loss if the Group managed such investments and made purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly attributable transaction costs were recognised in profit or loss as incurred.

Note 3. Summary of significant accounting policies (continued)

If the Group had the positive intent and ability to hold an investment to maturity, then such financial assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they were measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses. Allowances for doubtful debts were recorded to the extent that there was a likelihood that any of the amounts due will not be collected.

Available-for-sale financial assets are non-derivative financial assets that were designated as available-for-sale or not classified in any of the above categories of financial assets. Such assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, were recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment was derecognised, the cumulative gain or loss in equity was reclassified to profit or loss.

Changes in accounting policy in 2018

The following new standards which were applied for the first time in 2018 had changed the accounting policy starting from the current financial year.

IFRS 15, issued in May 2014, replaced the existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The Group adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As permitted by IFRS 15 comparatives have not been restated. The standard does not have a material effect on the Group's consolidated financial statements.

IFRS 9, issued in July 2014, replaced the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 introduced a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

The adoption of IFRS 9 has changed the classification as follows:

- available-for-sale financial assets were reclassified to fair value through other comprehensive income category;
- loans and receivables were reclassified to amortized cost category except for loans given to associates in the amount of 76 billion RUB and to third parties in the amount of 9 billion RUB which were reclassified to fair value through profit or loss category.

The effect of adopting IFRS 9 had no impact on the carrying amounts of financial assets as of 1 January 2018 resulted from reclassification.

In respect of impairment, IFRS 9 replaced the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model. The adoption of IFRS 9 resulted in recognition of additional allowance for expected credit losses recognised directly in equity in the amount of 6,831 million RUB net of deferred income tax at 1 January 2018. As permitted by IFRS 9 comparatives have not been restated.

Note 4. Use of estimates and judgments

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

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

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

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

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

Note 5. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2018, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 *Leases*, issued in January 2016, replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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

The Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. According to preliminary estimates made by the Company, one-off recognition of non-current assets and financial liabilities will total 140–200 billion RUB as of 1 January 2019. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

Note 5. New standards and interpretations not yet adopted (continued)

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. The Group is evaluating the effect of the adoption of IFRIC 23 and does not expect any material impact from its application on consolidated financial statements.

In March 2018, the IASB issued a revised version of Conceptual Framework for Financial Reporting. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after 1 January 2020. The Group is evaluating the effect of the adoption of the revised version of Conceptual Framework and does not expect any material impact from its application on consolidated financial statements.

Note 6. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash held in RUB	201,073	70,611
Cash held in US dollars	264,538	239,405
Cash held in EUR	18,350	13,490
Cash held in other currencies	8,689	6,884
Total cash and cash equivalents	492,650	330,390

Note 7. Accounts receivable, net

	31 December 2018	31 December 2017
Trade accounts receivable (net of allowances of 23,031 million RUB and 18,777 million RUB at 31 December 2018 and 2017, respectively)	411,247	393,073
Other current accounts receivable (net of allowances of 4,767 million RUB and 3,182 million RUB at 31 December 2018 and 2017, respectively)	18,698	25,199
Total accounts receivable, net	429,945	418,272

Note 8. Inventories

	31 December 2018	31 December 2017
Crude oil and petroleum products	325,563	345,216
Materials for extraction and drilling	23,128	19,925
Materials and supplies for refining	4,084	2,999
Other goods, materials and supplies	28,962	30,046
Total inventories	381,737	398,186

Note 9. Prepaid taxes

	31 December 2018	31 December 2017
Income tax prepaid	12,165	13,543
VAT and excise tax recoverable	37,832	38,930
Export duties prepaid	23,093	15,418
VAT prepaid	18,498	15,655
Other taxes prepaid	4,023	3,792
Total prepaid taxes	95,611	87,338

Note 10. Other current assets

	31 December 2018	31 December 2017
Advance payments	19,851	17,487
Prepaid expenses	22,139	23,072
Other assets	10,346	13,808
Total other current assets	52,336	54,367

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership			
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
<i>Joint Ventures:</i>					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	121,204	88,390
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	39,346	27,282
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	34,789	26,965
Others				623	474
<i>Associates:</i>					
Associates				32,091	21,175
Total				228,053	164,286

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

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

31 December 2017	TCO	CPC	SCPC	Others	Associates	Total
Current assets	245,662	17,397	5,037	4,319	36,489	308,904
Non-current assets	1,442,065	487,236	287,707	673	163,715	2,381,396
Current liabilities	151,856	107,246	9,104	1,248	38,201	307,655
Non-current liabilities	436,143	179,132	13,989	2,797	119,340	751,401
Net assets (100%)	1,099,728	218,255	269,651	947	42,663	1,631,244
Share in net assets	88,390	27,282	26,965	474	21,175	164,286

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

2017	TCO	CPC	SCPC	Others	Associates	Total
Revenues	783,091	115,836	20,417	8,731	104,705	1,032,780
Net income (100%)	240,459	28,478	11,717	1,024	3,395	285,073
Share in net income	10,074	3,560	1,172	512	1,546	16,864

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Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2017	3,902,267	1,236,552	72,543	5,211,362
Additions	365,329	91,676	2,189	459,194
Capitalised borrowing costs	7,605	-	-	7,605
Disposals	(37,837)	(14,859)	(1,331)	(54,027)
Changes in estimates of ARO	(7,187)	-	-	(7,187)
Foreign currency translation differences	245,644	60,352	2,465	308,461
Other	1,003	22	16	1,041
31 December 2018	4,476,824	1,373,743	75,882	5,926,449
Depreciation and impairment				
31 December 2017	(1,230,717)	(403,445)	(15,617)	(1,649,779)
Depreciation for the period	(247,940)	(94,405)	(3,673)	(346,018)
Impairment loss	(11,093)	(634)	-	(11,727)
Disposals	26,777	7,762	619	35,158
Foreign currency translation differences	(122,439)	(23,406)	(775)	(146,620)
Other	(1,096)	460	66	(570)
31 December 2018	(1,586,508)	(513,668)	(19,380)	(2,119,556)
Advance payments for property, plant and equipment				
31 December 2017	10,732	2,717	133	13,582
31 December 2018	5,916	15,669	686	22,271
Carrying amounts				
31 December 2017	2,682,282	835,824	57,059	3,575,165
31 December 2018	2,896,232	875,744	57,188	3,829,164
Cost				
31 December 2016	3,478,050	1,155,388	70,186	4,703,624
Additions	501,892	66,634	2,292	570,818
Acquisitions through business combinations	4,471	5,180	1,067	10,718
Capitalised borrowing costs	16,487	68	-	16,555
Disposals	(35,131)	(14,564)	(1,273)	(50,968)
Changes in estimates of ARO	(5,901)	-	-	(5,901)
Foreign currency translation differences	(55,896)	24,797	(634)	(31,733)
Other	(1,705)	(951)	905	(1,751)
31 December 2017	3,902,267	1,236,552	72,543	5,211,362
Depreciation and impairment				
31 December 2016	(1,058,116)	(307,641)	(11,794)	(1,377,551)
Depreciation for the period	(218,460)	(94,681)	(3,557)	(316,698)
Impairment loss	(22,382)	(3,241)	-	(25,623)
Impairment reversal	24,193	-	-	24,193
Disposals	15,603	10,205	353	26,161
Foreign currency translation differences	28,968	(8,846)	163	20,285
Other	(523)	759	(782)	(546)
31 December 2017	(1,230,717)	(403,445)	(15,617)	(1,649,779)
Advance payments for property, plant and equipment				
31 December 2016	64,764	486	43	65,293
31 December 2017	10,732	2,717	133	13,582
Carrying amounts				
31 December 2016	2,484,698	848,233	58,435	3,391,366
31 December 2017	2,682,282	835,824	57,059	3,575,165

Note 12. Property, plant and equipment (continued)

The cost of assets under construction included in Property, plant and equipment was 335,312 million RUB and 514,886 million RUB at 31 December 2018 and 2017, respectively.

Exploration and evaluation assets

	2018	2017
1 January	86,134	69,829
Capitalised expenditures	31,770	34,266
Reclassified to development assets	(3,962)	(8,627)
Charged to expenses	(9,103)	(10,030)
Foreign currency translation differences	3,657	(510)
Other movements	(1,391)	1,206
31 December	107,105	86,134

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

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

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

As a result of the test in 2017 the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,886 million RUB, for its international exploration and production assets in the amount of 1,496 million RUB and for its refining, marketing and distribution assets in Russia in the amount of 2,219 million RUB.

The recoverable amount of CGUs subject to impairment test in 2017 in the amount of 41,026 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.5%, for refining, marketing and distribution assets in Russia – from 11.3% to 15%.

The Group recognised an impairment reversal of 24,193 million RUB in 2017, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia in the amount of 22,202 million RUB. The recoverable amount of CGUs subject to impairment reversal was determined as 63,815 million RUB.

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

For impairment test purposes at 31 December 2018 the following Brent Blend price assumptions have been used: \$71.5 per barrel in 2019–2021, \$73.0 per barrel in 2022–2024, \$75.0 per barrel in 2025–2027 and \$77.0 per barrel from 2028.

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

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Note 13. Other non-current financial assets

	31 December 2018	31 December 2017
Financial assets measured at fair value through other comprehensive income		
Equity instruments	3,388	5,106
Financial assets measured at amortised cost		
Long-term loans	19,468	69,840
Non-current accounts and notes receivable	2,469	4,680
Other financial assets	102	91
Financial assets measured at fair value through profit or loss		
Long-term loans	57,064	-
Other financial assets	77	-
Total other non-current financial assets	82,568	79,717

Note 14. Goodwill and other intangible assets

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

Note 14. Goodwill and other intangible assets (continued)

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2016	16,384	2,359	46,419	30,701	95,863
Additions as a result of internal developments	634	610	-	-	1,244
Acquisitions	-	-	16	-	16
Additions – separately acquired	-	-	4,028	-	4,028
Disposals	(580)	(4)	(1,114)	-	(1,698)
Foreign currency translation differences	(55)	(1)	(989)	1,546	501
Other	30	4	(25)	-	9
31 December 2017	16,413	2,968	48,335	32,247	99,963
Amortisation and impairment					
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	(52,729)
Amortisation for the year	(1,267)	(237)	(5,886)	-	(7,390)
Impairment loss	-	-	(22)	-	(22)
Disposals	580	3	824	-	1,407
Foreign currency translation differences	68	-	647	(755)	(40)
Other	2	(5)	118	-	115
31 December 2017	(13,282)	(699)	(34,792)	(9,886)	(58,659)
Carrying amounts					
31 December 2016	3,719	1,899	15,946	21,570	43,134
31 December 2017	3,131	2,269	13,543	22,361	41,304

Goodwill was tested for impairment and no impairment was identified.

Note 15. Accounts payable

	31 December 2018	31 December 2017
Trade accounts payable	477,444	508,078
Other accounts payable	69,684	51,899
Total accounts payable	547,128	559,977

Note 16. Short-term borrowings and current portion of long-term debt

	31 December 2018	31 December 2017
Short-term borrowings from third parties	20,885	15,499
Short-term borrowings from related parties	7,843	3,170
Current portion of long-term debt	70,897	110,044
Total short-term borrowings and current portion of long-term debt	99,625	128,713

Short-term borrowings from third parties include amounts repayable in US dollars of 15,541 million RUB and 5,235 million RUB and amounts repayable in other currencies of 5,344 million RUB and 10,264 million RUB at 31 December 2018 and 2017, respectively. The weighted-average interest rate on short-term borrowings from third parties was 9.83% and 11.30% per annum at 31 December 2018 and 2017, respectively. Approximately 3% of total short-term borrowings from third parties at 31 December 2018 are secured by inventories.

Note 17. Long-term debt

	31 December 2018	31 December 2017
Long-term loans and borrowings from third parties	161,314	244,000
3.416% non-convertible US dollar bonds, maturing 2018	-	86,384
7.250% non-convertible US dollar bonds, maturing 2019	41,584	34,466
6.125% non-convertible US dollar bonds, maturing 2020	69,385	57,506
6.656% non-convertible US dollar bonds, maturing 2022	34,663	28,748
4.563% non-convertible US dollar bonds, maturing 2023	104,079	86,274
4.750% non-convertible US dollar bonds, maturing 2026	69,321	57,467
Finance lease obligations	25,973	2,846
Total long-term debt	506,319	597,691
Current portion of long-term debt	(70,897)	(110,044)
Total non-current portion of long-term debt	435,422	487,647

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 137,439 million RUB and 194,251 million RUB and amounts repayable in euros of 23,875 million RUB and 49,749 million RUB at 31 December 2018 and 2017, respectively. This debt has maturity dates from 2019 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.87% and 4.33% per annum at 31 December 2018 and 2017, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 46% of total long-term loans and borrowings from third parties at 31 December 2018 are secured by shares of an associated company, export sales and property, plant and equipment.

US dollar non-convertible bonds

In November 2016, a Group company issued non-convertible bonds totaling \$1 billion (69.5 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion (208.4 billion RUB). The first tranche totaling \$1.5 billion (104.2 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion (104.2 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period. In April 2018, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (69.5 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million (55.6 billion RUB) was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling \$200 million (13.9 billion RUB) was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling \$1.5 billion (104.2 billion RUB). The first tranche totaling \$900 million (62.5 billion RUB) with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling \$600 million (41.7 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

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Note 17. Long-term debt (continued)

In June 2007, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (69.5 billion RUB). \$500 million (34.7 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million (34.7 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Finance lease obligations	Other liabilities	Total
31 December 2017	262,669	350,845	2,846	64,566	680,926
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	19,502	-	-	-	19,502
Principal repayments of short-term borrowings	(10,909)	-	-	-	(10,909)
Proceeds from issuance of long-term debt	39,786	-	-	-	39,786
Principal repayments of long-term debt	(161,568)	(92,648)	(2,555)	-	(256,771)
Interest paid	-	-	-	(39,921)	(39,921)
Dividends paid on Company common stock	-	-	-	(158,370)	(158,370)
Total changes from financing cash flows	(113,189)	(92,648)	(2,555)	(198,291)	(406,683)
Other changes:					
Interest accrued	-	-	-	39,053	39,053
Dividends declared on Company common stock	-	-	-	158,635	158,635
The effect of changes in foreign exchange rates	39,824	60,749	72	1,124	101,769
Other changes	738	86	25,610	8,833	35,267
Total other changes	40,562	60,835	25,682	207,645	334,724
31 December 2018	190,042	319,032	25,973	73,920	608,967

Note 18. Taxes payable

	31 December 2018	31 December 2017
Income tax payable	11,316	8,963
Mineral extraction tax	46,532	47,175
VAT	34,823	34,147
Excise taxes	18,887	17,750
Property tax	4,985	3,652
Other taxes	7,431	6,797
Total taxes payable	123,974	118,484

Note 19. Other current liabilities

	31 December 2018	31 December 2017
Advances received	30,249	27,698
Dividends payable	72,103	62,254
Other	3,215	3,468
Total other current liabilities	105,567	93,420

Note 20. Provisions

	Asset retirement obligations	Provision for employee compensations	Provision for environmental liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 December 2018	36,424	9,401	4,014	8,910	5,968	21,472	86,189
Incl.: Non-current	36,042	263	1,604	5,916	178	3,920	47,923
Current	382	9,138	2,410	2,994	5,790	17,552	38,266
31 December 2017	36,668	36,172	4,176	10,367	5,472	13,360	106,215
Incl.: Non-current	36,478	14	1,683	8,292	54	1,441	47,962
Current	190	36,158	2,493	2,075	5,418	11,919	58,253

Asset retirement obligations changed as follows during 2018 and 2017:

	2018	2017
1 January	36,668	37,460
Provisions made during the year	3,026	4,951
Reversal of provisions	(220)	(200)
Provisions used during the year	(207)	(1,322)
Accretion expense	2,963	2,687
Change in discount rate	(1,331)	(2,378)
Changes in estimates	(7,405)	(4,073)
Foreign currency translation differences	2,902	(666)
Other movements	28	209
31 December	36,424	36,668

Note 21. Pension obligation

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

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

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2018 and 2017.

The following table sets out movement in the net liabilities before taxation during 2018 and 2017.

	2018	2017
1 January	10,367	8,049
Components of defined benefit costs recorded in profit or loss	518	1,009
Components of defined benefit costs recorded in other comprehensive loss	228	2,709
Contributions from employer	(1,451)	(1,702)
Benefits paid	(785)	(666)
Opening balance adjustment	33	6
Liability assumed in business combination	-	119
Other	-	843
31 December	8,910	10,367

Note 22. Equity

Common shares

	31 December 2018	31 December 2017
	(thousands of shares)	(thousands of shares)
Authorised and issued common shares, par value of 0.025 RUB each	750,000	850,563
Treasury shares	(53,107)	(140,930)
Outstanding common shares	696,893	709,633

According to the resolution of the extraordinary general shareholders' meeting held on 24 August 2018, 100,563 thousands of common shares of the Company were cancelled on 1 November 2018. As a result the number of authorized and issued common shares was reduced to 750 million.

In the second half of 2018, under the buy-back programme, a Group company repurchased on an open market 12,740 thousands of common shares of the Company for 62,916 million RUB.

Dividends

At the extraordinary shareholders' meeting on 3 December 2018, interim dividends for 2018 were approved in the amount of 95.00 RUB per common share.

At the annual general shareholders' meeting on 21 June 2018, dividends for 2017 were approved in the amount of 130.00 RUB per common share. At the extraordinary general shareholders' meeting on 4 December 2017, interim dividends for 2017 were approved in the amount of 85.00 RUB per common share. Total dividends for 2017 were approved in the amount of 215.00 RUB per common share.

Dividends on the Company's shares payable of 70,610 million RUB and 61,283 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2018 and 2017, respectively.

Earnings per share

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

	2018	2017
Profit for the year attributable to PJSC LUKOIL	619,174	418,805
Weighted average number of common shares (thousands of shares)	708,059	710,871
Dilutive effect of equity-settled share-based compensation plan (thousands of shares)	7,588	-
Weighted average number of common shares, assuming dilution (thousands of shares)	715,647	710,871
Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):		
Basic	874.47	589.14
Diluted	865.19	589.14

Note 23. Personnel expenses

Personnel expenses were as follows:

	2018	2017
Salary	135,671	127,851
Statutory insurance contributions	32,531	35,387
Share-based compensation	31,300	1,135
Total personnel expenses	199,502	164,373

Note 24. Finance income and costs

Finance income was as follows:

	2018	2017
Interest income from deposits	10,595	5,222
Interest income from loans	6,484	6,715
Other finance income	2,451	3,214
Total finance income	19,530	15,151

Finance costs were as follows:

	2018	2017
Interest expense	32,191	23,116
Accretion expense	2,994	2,705
Other finance costs	3,113	1,510
Total finance costs	38,298	27,331

Note 25. Other income and expenses

Other income was as follows:

	2018	2017
Gain on disposal of assets	2,919	58,233
Reversal of impairment of assets	-	28,448
Other income	18,351	18,176
Total other income	21,270	104,857

At the end of 2016, the Company entered into a contract with a company of the “Otkritie Holding” group to sell the Group’s 100% interest in JSC “Arkhangelskgeoldobycha” (“AGD”), a company developing the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The transaction in the amount of Russian ruble equivalent of \$1.45 billion was completed on 24 May 2017 after all necessary governmental approvals were received. As a result in 2017 the Group recognized profit before income tax in the amount of 48 billion RUB that is included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income (profit after income tax – 38 billion RUB).

Other expenses were as follows:

	2018	2017
Impairment loss	11,727	31,386
Loss on disposal of assets	17,253	15,944
Charity expenses	8,785	9,009
Other expenses	22,439	15,586
Total other expenses	60,204	71,925

Note 26. Income tax

Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) the Federal income tax rate is set as 3.0% and the regional income tax rate varies from 12.5% to 17.0% at the discretion of the regional administration. Legislation sets certain restrictions on the application of the reduced regional rates.

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

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

Note 26. Income tax (continued)

Income tax was as follows:

	2018	2017
Current income tax expense for the year	136,996	97,573
Adjustment for prior periods	66	2,403
Current income taxes	137,062	99,976
Deferred income tax	14,855	3,786
Total income tax expense	151,917	103,762

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

	2018	2017
Profit before income taxes	773,019	524,184
Notional income tax at the Russian statutory rate	154,604	104,837
Increase (reduction) in income tax due to:		
Non-deductible items, net	21,777	14,614
Domestic and foreign rate differences	(25,932)	(16,823)
Change in recognised deductible temporary differences	1,468	1,134
Total income tax expense	151,917	103,762

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities.

	31 December 2018	31 December 2017
Property, plant and equipment	8,251	6,666
Inventories	5,972	6,010
Accounts receivable	1,106	922
Accounts payable and provisions	15,874	10,931
Tax loss carry forward	32,989	33,516
Other	532	1,483
Total deferred income tax assets	64,724	59,528
Set off of tax	(33,683)	(34,400)
Deferred income tax assets	31,041	25,128
Property, plant and equipment	(267,422)	(254,956)
Investments	(6,949)	(3,348)
Inventories	(4,748)	(6,187)
Accounts receivable	(10,251)	(5,065)
Accounts payable and provisions	(902)	(63)
Other	(2,247)	(2,761)
Total deferred income tax liabilities	(292,519)	(272,380)
Set off of tax	33,683	34,400
Deferred income tax liabilities	(258,836)	(237,980)
Net deferred income tax liabilities	(227,795)	(212,852)

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Note 26. Income tax (continued)

	31 December 2017	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2018
Property, plant and equipment	(248,290)	(8,254)	-	(2,627)	(259,171)
Investments	(3,348)	(4,121)	-	520	(6,949)
Inventories	(177)	1,603	-	(202)	1,224
Accounts receivable	(4,143)	(4,083)	-	(919)	(9,145)
Accounts payable and provisions	10,868	1,912	-	2,192	14,972
Tax loss carry forward	33,516	(2,243)	-	1,716	32,989
Other	(1,278)	331	-	(768)	(1,715)
Net deferred income tax liabilities	(212,852)	(14,855)	-	(88)	(227,795)

	31 December 2016	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2017
Property, plant and equipment	(245,169)	(3,194)	(918)	991	(248,290)
Investments	(3,452)	94	-	10	(3,348)
Inventories	(2,423)	2,249	-	(3)	(177)
Accounts receivable	(4,003)	(322)	-	182	(4,143)
Accounts payable and provisions	10,166	389	(2)	315	10,868
Tax loss carry forward	35,086	(2,665)	-	1,095	33,516
Other	(937)	(337)	3	(7)	(1,278)
Net deferred income tax liabilities	(210,732)	(3,786)	(917)	2,583	(212,852)

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

	31 December 2018	31 December 2017
Property, plant and equipment	2,416	2,433
Tax loss carry forward	12,695	10,790
Other	1,186	1,090
Total unrecognised deferred tax assets	16,297	14,313

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

Amounts recognised in other comprehensive income during 2018:

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

Note 26. Income tax (continued)

Amounts recognised in other comprehensive income during 2017:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	2,626	-	2,626
Change in fair value of available-for-sale financial assets	(2,180)	-	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	(2,709)	384	(2,325)
Total	(2,263)	384	(1,879)

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided included 736,680 million RUB and 585,547 million RUB at 31 December 2018 and 2017, respectively. This liability was not recognised because the Group considers such amounts to be indefinitely invested, i.e. management believes that they will not be returned in the foreseeable future. Moreover the Group controls the dividend policy of its subsidiaries and is able to veto the payment of dividends.

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

Note 27. Operating lease

At 31 December 2018 and 2017, Group companies had commitments primarily for the lease of vessels, tank-cars, storage facilities and petroleum distribution outlets. Commitments for minimum rentals under non-cancellable leases are payable as follows:

	31 December 2018	31 December 2017
Less than a year	27,333	24,753
1-5 years	61,836	54,917
More than 5 years	93,573	88,277
Total	182,742	167,947

Note 28. Commitments and contingencies

Capital commitments

At 31 December 2018, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 473,615 million RUB.

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

Note 28. Commitments and contingencies (continued)

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

Social assets

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

Taxation environment

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

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

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

Litigation and claims

In July 2015, the prosecutors with the Ploesti Court of Appeals (hereinafter the "Prosecutor's Office") charged the general director and several officers of PETROTEL-LUKOIL S.A., a Group company, with bad faith use of the company's credit and money laundering. Similar charges were brought against LUKOIL Europe Holdings B.V., a Group company, for 2010–2014. On 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. Upon preliminary hearings the Prosecutor's Office revised the amount of damage claimed from \$2.2 billion (152.8 billion RUB) to \$1.5 billion (104.2 billion RUB). An expertise of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Tribunal on 12 February 2018.

Note 28. Commitments and contingencies (continued)

At the final hearing on the case which was held 23 October 2018 the court issued a not guilty decision to all the accused, including general director of PETROTEL-LUKOIL S.A., his deputies and PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. itself. As a result freezing injunction in the amount of approximately \$1.5 billion (104.2 billion RUB) was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor's Office. It is expected that the hearing of the appeal will take place in May – June 2019. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with the Republic of Kazakhstan with respect to cost recovery in 2010–2014 (the "CR") and the calculation of the "Fairness index" (the "FI") in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration which is at its initial stage, and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group's financial position.

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

Political situation

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

In August – October 2017, the US expanded abovementioned sanctions to include international oil projects initiated on or after 29 January 2018 that have the potential to produce oil in any location, and in which companies placed on the Sectoral Sanctions Identifications List (subject to Directive 4) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

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

Note 29. Related party transactions

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

Note 29. Related party transactions (continued)

Outstanding balances with related parties were as follows:

	31 December 2018	31 December 2017
Accounts receivable	1,927	10,567
Other financial assets	64,007	82,288
Total assets	65,934	92,855
Accounts payable	13,492	6,696
Loans and borrowings	3,356	3,170
Total liabilities	16,848	9,866

Related party transactions were as follows:

	2018	2017
Sales of oil and oil products	35,325	14,927
Other sales	4,593	4,055
Purchases of oil and oil products	209,599	86,548
Other purchases	9,690	7,388
Proceeds from sale of other financial assets, net	18,749	6,948
Proceeds from issuance (principal repayments) of loans, net	23	(798)

During 2017, a Group company acquired from a related party 3,300,000 shares of the Company for 9,474 million RUB.

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,518 million RUB and 1,588 million RUB during 2018 and 2017, respectively.

Also, during 2018, a provision under the new compensation plan (disclosed in Note 30 “Compensation plan”) was accrued in relation to the Company’s key management personnel in the amount of 3,137 million RUB.

Note 30. Compensation plan

During the period from 2013 to 2017, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provided compensation consisting of two parts. The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses was contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company’s common shares appreciation from 2013 to 2017, with rights vested in December 2017. The number of assigned shares for this compensation plan was approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as cash-settled. The grant date fair value of this part of the plan was estimated at 7.6 billion RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 6.50% per annum, an expected dividend yield of 4.09% per annum, an expected time to maturity of five years and a volatility factor of 16.10%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company’s shares for the previous seven year period up to January 2013. All the liabilities related to this plan were settled.

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

Note 30. Compensation plan (continued)

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

Related to these share plans the Group recognized compensation expenses of 31,300 million RUB and 1,135 million RUB during 2018 and 2017, respectively.

Note 31. Segment information

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

The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

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

Operating earnings are supplemental non-IFRS financial measure used by management to evaluate segments performance. Operating earnings are defined as profit before finance income and expense, income tax expense, depreciation, depletion and amortisation.

Operating segments

2018	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	247,657	7,763,810	24,422	-	8,035,889
Inter-segment	2,143,810	70,529	46,639	(2,260,978)	-
Total revenues	2,391,467	7,834,339	71,061	(2,260,978)	8,035,889
Operating expenses	273,012	243,214	19,554	(71,313)	464,467
Selling, general and administrative expenses	38,559	127,089	61,733	(34,948)	192,433
Profit (loss) for the year	508,401	156,805	(28,401)	(17,631)	619,174
Operating earnings	888,816	291,947	(26,458)	(21,361)	1,132,944
Income tax expense					(151,917)
Finance income					19,530
Finance costs					(38,298)
Depreciation, depletion and amortisation					(343,085)
Profit for the year attributable to PJSC LUKOIL shareholders					619,174

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Note 31. Segment information (continued)

2017	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	160,780	5,745,957	29,968	-	5,936,705
Inter-segment	1,553,442	71,140	45,522	(1,670,104)	-
Total revenues	1,714,222	5,817,097	75,490	(1,670,104)	5,936,705
Operating expenses	265,911	235,052	21,432	(65,630)	456,765
Selling, general and administrative expenses	48,671	129,902	25,496	(38,738)	165,331
Profit for the year	269,670	135,102	15,466	(1,433)	418,805
Operating earnings	560,861	267,412	31,081	447	859,801
Income tax expense					(103,762)
Finance income					15,151
Finance costs					(27,331)
Depreciation, depletion and amortisation					(325,054)
Profit for the year attributable to PJSC LUKOIL shareholders					418,805

Geographical segments

	2018	2017
Sales of crude oil within Russia	47,508	37,525
Export of crude oil and sales of crude oil by foreign subsidiaries	2,666,156	1,641,238
Sales of petroleum products within Russia	938,092	776,002
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,961,784	3,144,226
Sales of chemicals within Russia	46,085	34,451
Export of chemicals and sales of chemicals by foreign subsidiaries	67,682	48,187
Sales of gas within Russia	33,352	31,109
Sales of gas by foreign subsidiaries	112,990	54,611
Sales of energy and related services within Russia	54,353	61,028
Sales of energy and related services by foreign subsidiaries	15,600	12,884
Other sales within Russia	46,127	45,727
Other export sales and other sales of foreign subsidiaries	46,160	49,717
Total sales	8,035,889	5,936,705

2018	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,269,047	6,766,842	-	8,035,889
Inter-segment	1,621,187	3,270	(1,624,457)	-
Total revenues	2,890,234	6,770,112	(1,624,457)	8,035,889
Operating expenses	333,749	129,515	1,203	464,467
Selling, general and administrative expenses	96,486	99,755	(3,808)	192,433
Profit for the year	588,479	50,433	(19,738)	619,174
Operating earnings	956,807	193,166	(17,029)	1,132,944

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Note 31. Segment information (continued)

2017	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,064,086	4,872,619	-	5,936,705
Inter-segment	1,197,440	3,713	(1,201,153)	-
Total revenues	2,261,526	4,876,332	(1,201,153)	5,936,705
Operating expenses	333,178	117,467	6,120	456,765
Selling, general and administrative expenses	97,804	72,724	(5,197)	165,331
Profit for the year	381,351	40,411	(2,957)	418,805
Operating earnings	706,878	155,649	(2,726)	859,801

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

	2018	2017
Sales revenues		
in Switzerland	3,739,647	2,755,567
in the USA	922,045	572,264
in Singapore	684,276	457,913

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

Note 32. Subsidiaries

The most significant subsidiaries of the Group are presented below:

Subsidiary	Country of incorporation	31 December 2018		31 December 2017	
		Total shares	Voting shares	Total shares	Voting shares
LUKOIL-West Siberia LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-PERM LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Komi LLC	Russia	100.00%	100.00%	100.00%	100.00%
RITEK LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Permnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhegorodnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhnevolzhskneft LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Volgogradneftepererabotka LLC	Russia	100.00%	100.00%	100.00%	100.00%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%
LUKOIL International Upstream Holding B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftohim Burgas AD	Bulgaria	99.85%	99.85%	99.83%	99.83%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
SOYUZNEFTEGAZ VOSTOK LIMITED	Cyprus	100.00%	100.00%	100.00%	100.00%

Note 33. Fair value

There are the following methods of fair value measurement based on the valuation method:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – unobservable inputs.

Note 33. Fair value (continued)

The following tables show the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2018 and 2017:

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

31 December 2017	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	11,634	-	11,634	-	11,634
Available for sale securities	5,106	5,106	-	-	5,106
Financial liabilities:					
Commodity derivative contracts	11,978	-	11,978	-	11,978
Loans and borrowings	597,691	368,811	-	260,214	629,025

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2018 and 2017.

Note 34. Capital and risk management

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

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

Note 34. Capital and risk management (continued)

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

Credit risk

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

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

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

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2018	31 December 2017
Not past due	381,900	356,538
Past due less than 45 days	14,051	29,710
Past due from 46 to 180 days	14,464	7,364
Past due from 181 to 270 days	3,129	7,306
Past due from 271 to 365 days	1,964	5,234
Past due more than 365 days	14,437	12,120
Total trade and other receivables	429,945	418,272

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

Allowance for expected credit losses changed as follows during 2018:

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

Allowance for doubtful accounts receivable changed as follows during 2017:

1 January 2017	20,189
Increase in allowance charged to profit or loss	6,130
Write-off	(2,922)
Foreign currency translation differences	(579)
Other	(859)
31 December 2017	21,959

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

Note 34. Capital and risk management (continued)

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

Liquidity risk

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

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

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

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	263,202	304,938	52,147	50,855	158,868	43,068
Bonds, including interest expense	353,595	421,167	103,998	46,588	111,993	158,588
Finance lease obligations	2,846	5,344	1,398	1,311	2,635	-
Trade and other payables	545,734	545,734	545,113	192	319	110
Derivative financial liabilities	11,978	11,978	11,978	-	-	-
31 December 2017	1,177,355	1,289,161	714,634	98,946	273,815	201,766

Currency risk

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

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

Note 34. Capital and risk management (continued)

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2018 and 2017 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

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

31 December 2017	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	68,136	11,781	1,034
Trade and other receivables	162,005	1,787	4,727
Loans	175,173	3,548	-
Other financial assets	2,181	6	12
Financial liabilities:			
Loans and borrowings	(103,680)	(33,041)	(87)
Trade and other payables	(68,694)	(5,688)	(7,146)
Net exposure	235,121	(21,607)	(1,460)

The following exchange rates applied:

	31 December 2018	31 December 2017
USD	69.47	57.60
EUR	79.46	68.87

Sensitivity analysis

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2018 and 2017 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2018	2017
US Dollar (increase by 10%)	(7,726)	22,026
Euro (increase by 10%)	2,566	(249)
Russian ruble (increase by 10%)	4,937	(19,384)

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

Interest rate risk

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

Note 34. Capital and risk management (continued)

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

The interest rate profiles of the Group are presented below:

	31 December 2018	31 December 2017
<i>Fixed rate instruments:</i>		
Financial assets	92,124	45,354
Financial liabilities	(354,566)	(367,525)
Net exposure	(262,442)	(322,171)
<i>Variable rate instruments:</i>		
Financial assets	14,175	49,244
Financial liabilities	(180,481)	(248,835)
Net exposure	(166,306)	(199,591)

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2018 and 2017 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
2018		
Net financial liabilities	(1,663)	1,663
2017		
Net financial liabilities	(1,996)	1,996

Capital management

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

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

	31 December 2018	31 December 2017
Total debt	535,047	616,360
Less cash and cash equivalents	(492,650)	(330,390)
Net debt	42,397	285,970
Equity	4,073,526	3,490,399
Net debt to equity ratio	1.04%	8.19%

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

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

- I. Capitalised costs relating to oil and gas producing activities.
- II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
- III. Results of operations for oil and gas producing activities.
- IV. Reserve quantity information.
- V. Standardised measure of discounted future net cash flows.
- VI. Principal sources of changes in the standardised measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalised costs relating to oil and gas producing activities

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

31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	61,885	78,372	140,257	22,684
Proved oil and gas properties	1,104,857	2,657,153	3,762,010	185,749
Accumulated depreciation, depletion, and amortisation	(571,017)	(659,700)	(1,230,717)	(53,333)
Net capitalised costs	595,725	2,075,825	2,671,550	155,100

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

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

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	1,520	1,520	-
Acquisition of properties – unproved	-	2,972	2,972	-
Exploration costs	6,715	26,791	33,506	1,382
Development costs	129,468	299,738	429,206	8,897
Total costs incurred	136,183	331,021	467,204	10,279

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***III. Results of operations for oil and gas producing activities***

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

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

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	112,088	704,254	816,342	47,044
Transfers	-	705,802	705,802	1,243
Total revenues	112,088	1,410,056	1,522,144	48,287
Production costs (excluding production taxes)	(31,405)	(177,554)	(208,959)	(6,125)
Exploration expenses	(2,775)	(9,573)	(12,348)	(21)
Depreciation, depletion, and amortisation	(43,949)	(174,683)	(218,632)	(7,446)
Taxes other than income taxes	(475)	(709,670)	(710,145)	(10,955)
Related income taxes	(6,766)	(53,041)	(59,807)	(8,544)
Total results of operations for producing activities	26,718	285,535	312,253	15,196

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which according to geological and engineering data are going to be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. Existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies to both newly issued and old licenses and the Group has currently renewed 67% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

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

Estimated net proved oil and gas reserves and changes thereto for 2018 and 2017 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Crude oil				
31 December 2016	628	11,561	12,189	293
Revisions of previous estimates	(128)	(55)	(183)	(5)
Purchase of hydrocarbons in place	-	11	11	-
Extensions and discoveries	8	408	416	14
Production	(29)	(609)	(638)	(20)
31 December 2017	479	11,316	11,795	282
Revisions of previous estimates	(148)	273	125	16
Purchase of hydrocarbons in place	-	3	3	-
Extensions and discoveries	12	500	512	8
Production	(27)	(614)	(641)	(18)
31 December 2018	316	11,478	11,794	288
Proved developed reserves				
31 December 2017	250	7,331	7,581	131
31 December 2018	204	7,602	7,806	133

The non-controlling interest share included in the above total proved reserves was 73 million barrels and 94 million barrels at 31 December 2018 and 2017, respectively. The non-controlling interest share included in the above proved developed reserves was 39 million barrels and 57 million barrels at 31 December 2018 and 2017, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Natural gas				
31 December 2016	7,058	16,270	23,328	165
Revisions of previous estimates	157	563	720	29
Extensions and discoveries	140	281	421	5
Production	(349)	(638)	(987)	(32)
31 December 2017	7,006	16,476	23,482	167
Revisions of previous estimates	(158)	351	193	98
Purchase of hydrocarbons in place	-	2	2	-
Extensions and discoveries	37	297	334	2
Production	(533)	(626)	(1,159)	(26)
31 December 2018	6,352	16,500	22,852	241
Proved developed reserves:				
31 December 2017	5,409	5,558	10,967	121
31 December 2018	5,072	5,758	10,830	146

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2018 and 2017. The non-controlling interest share included in the above proved developed reserves was 14 and 13 billion cubic feet at 31 December 2018 and 2017, respectively. All non-controlling interests relate to reserves in the Russian Federation.

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***V. Standardised measure of discounted future net cash flows***

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

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

31 December 2018	International	Russia	Total consolidated companies	Group's share in equity companies
Future cash inflows	2,938,283	49,617,947	52,556,230	1,207,677
Future production and development costs	(1,620,666)	(36,498,385)	(38,119,051)	(746,756)
Future income tax expenses	(131,008)	(2,297,381)	(2,428,389)	(139,882)
Future net cash flows	1,186,609	10,822,181	12,008,790	321,039
Discount for estimated timing of cash flows (10% p.a.)	(449,443)	(5,922,682)	(6,372,125)	(162,831)
Discounted future net cash flows	737,166	4,899,499	5,636,665	158,208
Non-controlling share in discounted future net cash flows	-	36,032	36,032	-
31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Future cash inflows	2,460,227	23,774,561	26,234,788	685,571
Future production and development costs	(1,663,223)	(17,196,531)	(18,859,754)	(447,375)
Future income tax expenses	(54,737)	(1,018,876)	(1,073,613)	(43,283)
Future net cash flows	742,267	5,559,154	6,301,421	194,913
Discount for estimated timing of cash flows (10% p.a.)	(331,525)	(3,110,698)	(3,442,223)	(100,127)
Discounted future net cash flows	410,742	2,448,456	2,859,198	94,786
Non-controlling share in discounted future net cash flows	-	22,136	22,136	-

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***VI. Principal sources of changes in the standardised measure of discounted future net cash flows***

Consolidated companies	2018	2017
Discounted present value at 1 January	2,859,198	2,379,847
Net changes due to purchases and sales of minerals in place	1,367	2,167
Sales and transfers of oil and gas produced, net of production costs	(876,998)	(590,692)
Net changes in prices and production costs estimates	11,583,655	1,641,159
Net changes in mineral extraction taxes	(8,206,395)	(1,129,879)
Extensions and discoveries, less related costs	257,337	104,704
Previously estimated development cost incurred during the year	300,233	349,720
Revisions of previous quantity estimates	31,469	(26,040)
Net change in income taxes	(626,197)	(44,824)
Accretion of discount	312,181	262,831
Other changes	815	(89,795)
Discounted present value at 31 December	5,636,665	2,859,198
Group's share in equity companies	2018	2017
Discounted present value at 1 January	94,786	45,250
Sales and transfers of oil and gas produced, net of production costs	(41,773)	(31,186)
Net changes in prices and production costs estimates	227,904	101,022
Net changes in mineral extraction taxes	(131,737)	(47,336)
Extensions and discoveries, less related costs	4,258	4,402
Previously estimated development cost incurred during the year	29,688	27,167
Revisions of previous quantity estimates	15,001	(316)
Net change in income taxes	(46,305)	(7,185)
Accretion of discount	11,273	5,791
Other changes	(4,887)	(2,823)
Discounted present value at 31 December	158,208	94,786



PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017



Independent Auditors' Report

To the Shareholders of PJSC LUKOIL

Opinion

We have audited the consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

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

Registration No. in the Unified State Register of Legal Entities
1027700085768

Moscow, Russia

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

Registration No. in the Unified State Register of Legal Entities 1027700125601

Member of the Self-regulated organization of auditors "Russian Union of Auditors" (Association). The Principal Registration Number of the Entity in the Register of Auditors and Audit Organizations: No. 11605058203.



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

Please refer to the Note 12 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2017. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.</p>	<p>In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models.</p> <p>We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.</p>

Estimation of oil and gas reserves and resources

Please refer to the Note 4 in the consolidated financial statements.

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



Other Information

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



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


A.I. Oussou
JSC "KPMG"
Moscow, Russia
20 March 2018



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

	Note	31 December 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	6	330,390	261,367
Accounts receivable, net	7	418,272	360,897
Other current financial assets		19,561	16,934
Inventories	8	398,186	404,284
Prepaid taxes	9	87,338	93,675
Other current assets	10	54,367	83,175
Assets held for sale	15	-	35,309
Total current assets		1,308,114	1,255,641
Property, plant and equipment	12	3,575,165	3,391,366
Investments in associates and joint ventures	11	164,286	162,405
Other non-current financial assets	13	79,717	101,812
Deferred income tax assets	27	25,128	29,079
Goodwill and other intangible assets	14	41,304	43,134
Other non-current assets		32,501	31,236
Total non-current assets		3,918,101	3,759,032
Total assets		5,226,215	5,014,673
Liabilities and equity			
Current liabilities			
Accounts payable	16	559,977	550,247
Short-term borrowings and current portion of long-term debt	17	128,713	58,429
Taxes payable	19	118,484	94,955
Provisions	21, 22	58,253	26,015
Other current liabilities	20	93,420	97,110
Liabilities related to assets held for sale	15	-	3,930
Total current liabilities		958,847	830,686
Long-term debt	18	487,647	640,161
Deferred income tax liabilities	27	237,980	239,811
Provisions	21, 22	47,962	69,944
Other non-current liabilities		3,380	6,407
Total non-current liabilities		776,969	956,323
Total liabilities		1,735,816	1,787,009
Equity			
Share capital	23	1,151	1,151
Treasury shares		(251,089)	(241,615)
Additional paid-in capital		129,641	129,514
Other reserves		27,090	28,975
Retained earnings		3,576,158	3,302,855
Total equity attributable to PJSC LUKOIL shareholders		3,482,951	3,220,880
Non-controlling interests		7,448	6,784
Total equity		3,490,399	3,227,664
Total liabilities and equity		5,226,215	5,014,673

President of PJSC LUKOIL
Aleperov V.Y.

Chief accountant of PJSC LUKOIL
Verkhov V.A.

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

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

	Note	2017	2016
Revenues			
Sales (including excise and export tariffs)	32	5,936,705	5,227,045
Costs and other deductions			
Operating expenses		(456,765)	(456,433)
Cost of purchased crude oil, gas and products		(3,129,864)	(2,609,764)
Transportation expenses		(272,792)	(299,017)
Selling, general and administrative expenses		(165,331)	(196,156)
Depreciation, depletion and amortisation		(325,054)	(311,588)
Taxes other than income taxes		(606,510)	(443,338)
Excise and export tariffs		(461,525)	(483,313)
Exploration expenses		(12,348)	(8,293)
Profit from operating activities			
Finance income	25	15,151	14,756
Finance costs	25	(27,331)	(47,030)
Equity share in income of affiliates	11	16,864	7,967
Foreign exchange loss		(19,948)	(111,976)
Other income (expenses)	26	32,932	(10,345)
Profit before income taxes			
Current income taxes		(99,976)	(58,170)
Deferred income taxes		(3,786)	(6,703)
Total income tax expense			
	27	(103,762)	(64,873)
Profit for the year			
Profit for the year attributable to non-controlling interests		(1,617)	(848)
Profit for the year attributable to PJSC LUKOIL shareholders			
		418,805	206,794
Other comprehensive income (loss), net of income taxes			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		2,626	(74,175)
Change in fair value of available-for-sale financial assets		(2,180)	-
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset of pension plan	22	(2,325)	(925)
Other comprehensive loss			
		(1,879)	(75,100)
Total comprehensive income for the year			
Total comprehensive income for the year attributable to non-controlling interests		(1,650)	(871)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders			
		416,893	131,671
Basic and diluted earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):			
	23	589.14	290.06

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

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

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	3,220,880	6,784	3,227,664
Profit for the year	-	-	-	-	418,805	418,805	1,617	420,422
Other comprehensive income:	-	-	-	(1,885)	(27)	(1,912)	33	(1,879)
Total comprehensive income (loss)				(1,885)	418,778	416,893	1,650	418,543
Dividends on common shares	-	-	-	-	(145,475)	(145,475)	-	(145,475)
Stock purchased	-	(9,474)	-	-	-	(9,474)	-	(9,474)
Changes in non-controlling interests	-	-	127	-	-	127	(986)	(859)
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	3,482,951	7,448	3,490,399
31 December 2015	1,151	(241,615)	129,403	104,150	3,229,379	3,222,468	8,906	3,231,374
Profit for the year	-	-	-	-	206,794	206,794	848	207,642
Other comprehensive income:	-	-	-	(75,123)	-	(75,123)	23	(75,100)
Total comprehensive income (loss)				(75,123)	206,794	131,671	871	132,542
Dividends on common shares	-	-	-	-	(133,318)	(133,318)	-	(133,318)
Changes in non-controlling interests	-	-	111	(52)	-	59	(2,993)	(2,934)
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	3,220,880	6,784	3,227,664

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

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

	Note	2017	2016
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		418,805	206,794
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		325,054	311,588
Equity share in income of affiliates, net of dividends received		(7,401)	(4,040)
Dry hole write-offs		9,445	1,986
(Gain) loss on disposals and impairments of assets		(39,351)	7,031
Income tax expense		103,762	64,873
Non-cash foreign exchange loss		20,917	106,605
Non-cash investing activities		25	(127)
Finance income		(15,151)	(14,756)
Finance costs		27,331	47,030
Bad debt provision		6,139	6,401
All other items – net		3,995	25,175
Changes in operating assets and liabilities:			
Trade accounts receivable		(84,055)	9,220
Inventories		(9,350)	(133,754)
Accounts payable		27,720	219,603
Other taxes		21,538	24,984
Other current assets and liabilities		19,164	(69,822)
Income tax paid		(88,323)	(71,578)
Dividends received		7,907	4,385
Interests received		10,319	10,649
Net cash provided by operating activities		758,490	752,247
Cash flows from investing activities			
Acquisition of licenses		(612)	(2,549)
Capital expenditures		(511,496)	(497,130)
Proceeds from sale of property, plant and equipment		1,649	2,089
Purchases of financial assets		(5,926)	(17,471)
Proceeds from sale of financial assets		12,309	13,283
Sale of subsidiaries, net of cash disposed		80,939	907
Sale of equity method affiliates		957	4,940
Acquisitions of subsidiaries, net of cash acquired		(7,391)	-
Acquisitions of equity method affiliates		(3,715)	(4,412)
Net cash used in investing activities		(433,286)	(500,343)
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		9,526	12,449
Principal repayments of short-term borrowings		(7,575)	(23,309)
Proceeds from issuance of long-term debt		68,049	188,684
Principal repayments of long-term debt		(127,606)	(189,592)
Interests paid		(38,872)	(49,695)
Dividends paid on Company common shares		(138,810)	(127,345)
Dividends paid to non-controlling interest shareholders		(2,689)	(3,383)
Financing received from non-controlling interest shareholders		31	342
Purchase of Company's stock		(9,474)	-
Sale of non-controlling interests		30	-
Purchases of non-controlling interest		(5)	(1,285)
Net cash used in financing activities		(247,395)	(193,134)
Effect of exchange rate changes on cash and cash equivalents		(8,786)	(54,663)
Change in cash related to assets held for sale	15	-	(3)
Net increase in cash and cash equivalents		69,023	4,104
Cash and cash equivalents at beginning of year		261,367	257,263
Cash and cash equivalents at end of year	6	330,390	261,367

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

Note 1. Organisation and environment

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

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

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

Business and economic environment

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

Note 2. Basis of preparation

Statement of compliance

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

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

The consolidated financial statements were authorised by the President of the Company on 20 March 2018.

Functional and presentation currency

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

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

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

Note 3. Summary of significant accounting policies

Principles of consolidation

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

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

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

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

Other investments are classified as held-to-maturity or available-for-sale investments.

Business combinations

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

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

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

Note 3. Summary of significant accounting policies (continued)

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

Foreign operations

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

Revenues

Revenues are recognised when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

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

Note 3. Summary of significant accounting policies (continued)

Revenues from non-cash sales are recognised at the fair value of the crude oil and petroleum products sold.

Cash and cash equivalents

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

Financial assets

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly attributable transaction costs are recognised in profit or loss as incurred.

If the Group has the positive intent and ability to hold an investment to maturity, then such financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be collected.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss.

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

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

Non-derivative financial liabilities

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

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

Note 3. Summary of significant accounting policies (continued)

Derivative instruments

The Group's derivative activity is limited to certain trading operations with oil and petroleum products and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities as not intended for hedging and doesn't use hedge accounting. The Group accounts for these activities at fair value. Resulting realised and unrealised gains or losses are presented in profit or loss on a net basis. Unrealised gains and losses are carried as assets or liabilities in the consolidated statement of financial position.

Inventories

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

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

Property, plant and equipment

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

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

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

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

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

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

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

Production and related overhead costs are expensed as incurred.

Note 3. Summary of significant accounting policies (continued)

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

Impairment of long-lived assets

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

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

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

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

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

Asset retirement obligations

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

Assets classified as held for sale

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

Note 3. Summary of significant accounting policies (continued)

Income taxes

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

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

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

Treasury shares

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

Note 3. Summary of significant accounting policies (continued)

Earnings per share

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

Provisions and contingencies

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

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

Environmental expenditures

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

Share-based payments

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

Note 4. Use of estimates and judgments

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

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

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

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

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

Note 5. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2017, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, issued in December 2016, addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is evaluating the effect of the adoption of IFRIC 22 and does not expect any material impact from its application on consolidated financial statements.

IFRS 2 *Share-based Payment* was amended in June 2016 by the *Classification and Measurement of Share-based Payment Transactions*. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. The Group is evaluating the effect of the adoption of IFRS 2 and does not expect any material impact from its application on consolidated financial statements.

IFRS 9 *Financial instruments*, issued in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items and is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity financial assets, loans and receivables and available for sale financial assets. Based on preliminary assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans and investments in debt securities.

IFRS 9 replaces the current 'incurred loss' model with a forward-looking 'expected credit loss' model. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. Based on preliminary assessment, the Group has estimated that application of IFRS 9's impairment requirements at 1 January 2018 would not result in additional significant impairment losses.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue when a customer obtains control of the goods. Based on management's preliminary assessment this will not significantly impact the Group's revenue recognition.

Note 5. New standards and interpretations not yet adopted (continued)

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 16 *Leases*, issued in January 2016, replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Group is currently assessing the potential impact of adopting IFRS 16 on its consolidated financial statements.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

Note 6. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash held in RUB	70,611	33,151
Cash held in US dollars	239,405	162,673
Cash held in EUR	13,490	59,135
Cash held in other currencies	6,884	6,408
Total cash and cash equivalents	330,390	261,367

Note 7. Accounts receivable, net

	31 December 2017	31 December 2016
Trade accounts receivable (net of allowances of 18,777 million RUB and 18,270 million RUB at 31 December 2017 and 2016, respectively)	393,073	332,975
Other current accounts receivable (net of allowances of 3,182 million RUB and 1,919 million RUB at 31 December 2017 and 2016, respectively)	25,199	27,922
Total accounts receivable, net	418,272	360,897

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Note 8. Inventories

	31 December 2017	31 December 2016
Crude oil and petroleum products	345,216	349,153
Materials for extraction and drilling	19,925	20,182
Materials and supplies for refining	2,999	2,741
Other goods, materials and supplies	30,046	32,208
Total inventories	398,186	404,284

Note 9. Prepaid taxes

	31 December 2017	31 December 2016
Income tax prepaid	13,543	19,646
VAT and excise tax recoverable	38,930	34,436
Export duties prepaid	15,418	17,113
Other taxes prepaid	19,447	22,480
Total prepaid taxes	87,338	93,675

Note 10. Other current assets

	31 December 2017	31 December 2016
Advance payments	17,487	48,157
Prepaid expenses	23,072	23,172
Other assets	13,808	11,846
Total other current assets	54,367	83,175

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership			
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
<i>Joint Ventures:</i>					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	88,390	86,851
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	27,282	25,032
Turgai Petroleum	Kazakhstan	50.0%	50.0%	474	1,650
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	26,965	23,738
<i>Associates:</i>					
Associates				21,175	25,134
Total				164,286	162,405

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

31 December 2017	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Current assets	245,662	17,397	4,319	5,037	36,489	308,904
Non-current assets	1,442,065	487,236	673	287,707	163,715	2,381,396
Current liabilities	151,856	107,246	1,248	9,104	38,201	307,655
Non-current liabilities	436,143	179,132	2,797	13,989	119,340	751,401
Net assets (100%)	1,099,728	218,255	947	269,651	42,663	1,631,244
Share in net assets	88,390	27,282	474	26,965	21,175	164,286

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Note 11. Investments in associates and joint ventures (continued)

31 December 2016	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Current assets	426,148	11,870	4,979	8,770	39,071	490,838
Non-current assets	1,173,533	548,193	2,387	256,657	162,144	2,142,914
Current liabilities	180,220	101,153	1,369	14,604	34,387	331,733
Non-current liabilities	426,482	258,656	2,697	13,445	116,483	817,763
Net assets (100%)	992,979	200,254	3,300	237,378	50,345	1,484,256
Share in net assets	86,851	25,032	1,650	23,738	25,134	162,405

2017	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Revenues	783,091	115,836	8,731	20,417	104,705	1,032,780
Net income (100%)	240,459	28,478	1,024	11,717	3,395	285,073
Share in net income	10,074	3,560	512	1,172	1,546	16,864

2016	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Revenues	697,252	107,417	9,445	22,988	99,919	937,021
Net income (100%)	125,675	18,504	432	14,182	3,357	162,150
Share in net income (net loss)	4,111	2,313	216	1,418	(91)	7,967

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2016	3,478,050	1,155,388	70,186	4,703,624
Additions	500,325	66,628	2,292	569,245
Acquisitions through business combinations	4,471	5,180	1,067	10,718
Capitalised borrowing costs	16,487	68	-	16,555
Disposals	(35,131)	(14,564)	(1,273)	(50,968)
Changes in estimates of ARO	(5,901)	-	-	(5,901)
Foreign currency translation differences	(55,896)	24,797	(634)	(31,733)
Other	(138)	(945)	905	(178)
31 December 2017	3,902,267	1,236,552	72,543	5,211,362
Depreciation and impairment				
31 December 2016	(1,058,116)	(307,641)	(11,794)	(1,377,551)
Depreciation for the period	(218,460)	(94,681)	(3,557)	(316,698)
Impairment loss	(22,382)	(3,241)	-	(25,623)
Impairment reversal	24,193	-	-	24,193
Disposals	15,603	10,205	353	26,161
Foreign currency translation differences	28,968	(8,846)	163	20,285
Other	(523)	759	(782)	(546)
31 December 2017	(1,230,717)	(403,445)	(15,617)	(1,649,779)
Advance payments for property, plant and equipment				
31 December 2016	64,764	486	43	65,293
31 December 2017	10,732	2,717	133	13,582
Carrying amounts				
31 December 2016	2,484,698	848,233	58,435	3,391,366
31 December 2017	2,682,282	835,824	57,059	3,575,165

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Note 12. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2015	3,232,673	1,206,252	103,587	4,542,512
Additions	452,115	60,317	3,449	515,881
Capitalised borrowing costs	11,738	427	1	12,166
Transfer to assets held for sale	-	-	(34,315)	(34,315)
Disposals	(13,482)	(23,935)	(1,138)	(38,555)
Changes in estimates of ARO	1,746	-	-	1,746
Foreign currency translation differences	(201,105)	(93,609)	(2,582)	(297,296)
Other	(5,635)	5,936	1,184	1,485
31 December 2016	3,478,050	1,155,388	70,186	4,703,624
Depreciation and impairment				
31 December 2015	(953,254)	(259,515)	(14,627)	(1,227,396)
Depreciation for the period	(211,034)	(92,561)	(6,120)	(309,715)
Transfer to assets held for sale	-	-	7,846	7,846
Impairment loss	(7,632)	(1,172)	-	(8,804)
Disposals	2,793	13,704	636	17,133
Foreign currency translation differences	111,097	31,656	585	143,338
Other	(86)	247	(114)	47
31 December 2016	(1,058,116)	(307,641)	(11,794)	(1,377,551)
Advance payments for property, plant and equipment				
31 December 2015	94,619	1,280	138	96,037
31 December 2016	64,764	486	43	65,293
Carrying amounts				
31 December 2015	2,374,038	948,017	89,098	3,411,153
31 December 2016	2,484,698	848,233	58,435	3,391,366

The cost of assets under construction included in Property, plant and equipment was 514,886 million RUB and 593,970 million RUB at 31 December 2017 and 2016, respectively.

Exploration and evaluation assets

	2017	2016
1 January	69,829	52,302
Capitalised expenditures	34,266	28,653
Reclassified to development assets	(8,627)	(6,525)
Charged to expenses	(10,030)	(2,775)
Foreign currency translation differences	(510)	(1,700)
Other movements	1,206	(126)
31 December	86,134	69,829

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

As a result of the test in 2017 the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,886 million RUB, for its international exploration and production assets in the amount of 1,496 million RUB and for its refining, marketing and distribution assets in Russia in the amount of 2,219 million RUB.

Note 12. Property, plant and equipment (continued)

The recoverable amount of CGUs subject to impairment in 2017 in the amount of 41,026 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.5%, for refining, marketing and distribution assets – from 11.3% to 15%.

The Group recognised an impairment reversal of 24,193 million RUB in 2017, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia in the amount of 22,202 million RUB. The recoverable amount of CGUs subject to impairment reversal was determined as 63,815 million RUB.

As a result of the test in 2016 the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5,696 million RUB, for its international exploration and production assets in the amount of 1,936 million RUB and for its refining, marketing and distribution assets in the amount of 1,172 million RUB.

The recoverable amount of CGUs subject to impairment in 2016 in the amount of 17,531 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets – from 10% to 11.9%, for refining, marketing and distribution assets – 11.9%.

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

For impairment test purposes at 31 December 2017 the following Brent Blend price assumptions have been used: \$60 per barrel in 2018, \$71 per barrel in 2019, \$76 per barrel in 2020, \$77 per barrel in 2021–2022, \$79 per barrel in 2023–2025 and \$82 per barrel from 2026.

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

Note 13. Other non-current financial assets

	31 December 2017	31 December 2016
Long-term loans	69,840	86,387
including loans to associates	69,668	86,181
Non-current accounts and notes receivable	4,680	7,916
Other non-current financial assets	5,197	7,509
Total other non-current financial assets	79,717	101,812

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Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2016	16,384	2,359	46,419	30,701	95,863
Additions as a result of internal developments	634	610	-	-	1,244
Acquisitions	-	-	16	-	16
Additions – separately acquired	-	-	4,028	-	4,028
Disposals	(580)	(4)	(1,114)	-	(1,698)
Foreign currency translation differences	(55)	(1)	(989)	1,546	501
Other	30	4	(25)	-	9
31 December 2017	16,413	2,968	48,335	32,247	99,963
Amortisation and impairment					
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	(52,729)
Amortisation for the year	(1,267)	(237)	(5,886)	-	(7,390)
Impairment loss	-	-	(22)	-	(22)
Disposals	580	3	824	-	1,407
Foreign currency translation differences	68	-	647	(755)	(40)
Other	2	(5)	118	-	115
31 December 2017	(13,282)	(699)	(34,792)	(9,886)	(58,659)
Carrying amounts					
31 December 2016	3,719	1,899	15,946	21,570	43,134
31 December 2017	3,131	2,269	13,543	22,361	41,304
Cost					
31 December 2015	14,722	1,592	54,276	35,765	106,355
Additions as a result of internal developments	119	870	-	-	989
Additions – separately acquired	-	-	4,405	-	4,405
Disposals	(6)	(21)	(1,018)	-	(1,045)
Foreign currency translation differences	(272)	(1)	(7,554)	(4,621)	(12,448)
Other	1,821	(81)	(3,690)	(443)	(2,393)
31 December 2016	16,384	2,359	46,419	30,701	95,863
Amortisation and impairment					
31 December 2015	(10,110)	(263)	(32,359)	(11,912)	(54,644)
Amortisation for the year	(1,512)	(166)	(5,777)	-	(7,455)
Impairment loss	-	-	(82)	-	(82)
Disposals	2	4	900	-	906
Foreign currency translation differences	225	1	3,943	2,231	6,400
Other	(1,270)	(36)	2,902	550	2,146
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	(52,729)
Advance payments for intangible assets					
31 December 2015	-	-	38	-	38
31 December 2016	-	-	-	-	-
Carrying amounts					
31 December 2015	4,612	1,329	21,955	23,853	51,749
31 December 2016	3,719	1,899	15,946	21,570	43,134

Goodwill was tested for impairment and no impairment was identified.

Note 15. Assets held for sale

In December 2016, the Company entered into a contract with a company of the “Otkrytie Holding” group to sell the Group’s 100% interest in JSC “Arkhangelskgeoldobycha” (“AGD”), a company developing the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The transaction in the amount of Russian ruble equivalent of \$1.45 billion was completed on 24 May 2017 after all necessary governmental approvals were received. As a result the Group recognized profit before income tax in the amount of 48 billion RUB that is included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income (profit after income tax – 38 billion RUB).

Note 16. Accounts payable

	31 December 2017	31 December 2016
Trade accounts payable	508,078	478,673
Other accounts payable	51,899	71,574
Total accounts payable	559,977	550,247

Note 17. Short-term borrowings and current portion of long-term debt

	31 December 2017	31 December 2016
Short-term borrowings from third parties	15,499	14,305
Short-term borrowings from related parties	3,170	3,743
Current portion of long-term debt	110,044	40,381
Total short-term borrowings and current portion of long-term debt	128,713	58,429

Short-term borrowings from third parties include amounts repayable in US dollars of 5,235 million RUB and 667 million RUB and amounts repayable in other currencies of 10,264 million RUB and 13,638 million RUB at 31 December 2017 and 2016, respectively. The weighted-average interest rate on short-term borrowings from third parties was 11.30% and 9.42% per annum at 31 December 2017 and 2016, respectively. Approximately 33% of total short-term borrowings from third parties at 31 December 2017 are secured by inventories.

Note 18. Long-term debt

	31 December 2017	31 December 2016
Long-term loans and borrowings from third parties	244,000	277,404
6.356% non-convertible US dollar bonds, maturing 2017	-	30,328
3.416% non-convertible US dollar bonds, maturing 2018	86,384	90,689
7.250% non-convertible US dollar bonds, maturing 2019	34,466	36,304
6.125% non-convertible US dollar bonds, maturing 2020	57,506	60,585
6.656% non-convertible US dollar bonds, maturing 2022	28,748	30,328
4.563% non-convertible US dollar bonds, maturing 2023	86,274	90,689
4.750% non-convertible US dollar bonds, maturing 2026	57,467	60,657
Finance lease obligations	2,846	3,558
Total long-term debt	597,691	680,542
Current portion of long-term debt	(110,044)	(40,381)
Total non-current portion of long-term debt	487,647	640,161

Note 18. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 194,251 million RUB and 155,720 million RUB, amounts repayable in euros of 49,749 million RUB and 50,496 million RUB, amounts repayable in Russian rubles of nil and 70,000 million RUB and amounts repayable in other currencies of nil and 1,188 million RUB at 31 December 2017 and 2016, respectively. This debt has maturity dates from 2018 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.33% and 6.06% per annum at 31 December 2017 and 2016, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 27% of total long-term loans and borrowings from third parties at 31 December 2017 are secured by shares of an associated company, export sales and property, plant and equipment.

US dollar non-convertible bonds

In November 2016, a Group company issued non-convertible bonds totaling \$1 billion (57.6 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion (172.8 billion RUB). The first tranche totaling \$1.5 billion (86.4 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion (86.4 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (57.6 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million (46.1 billion RUB) was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling \$200 million (11.5 billion RUB) was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling \$1.5 billion (86.4 billion RUB). The first tranche totaling \$900 million (51.8 billion RUB) with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling \$600 million (34.6 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In June 2007, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (57.6 billion RUB). \$500 million (28.8 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million (28.8 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

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Note 18. Long-term debt (continued)

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Capital lease obligation	Other liabilities	Total
31 December 2016	295,452	399,580	3,558	58,301	756,891
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	9,526	-	-	-	9,526
Principal repayments of short-term borrowings	(7,575)	-	-	-	(7,575)
Proceeds from issuance of long-term debt	68,049	-	-	-	68,049
Principal repayments of long-term debt	(97,977)	(28,573)	(1,056)	-	(127,606)
Interest paid	-	-	-	(38,872)	(38,872)
Dividends paid on Company common stock	-	-	-	(138,810)	(138,810)
Total changes from financing cash flows	(27,977)	(28,573)	(1,056)	(177,682)	(235,288)
Other changes:					
Interest accrued	-	-	-	40,483	40,483
Dividends declared on Company common stock	-	-	-	145,475	145,475
Changes arising from obtaining or losing control of subsidiaries or other businesses	(480)	-	-	310	(170)
The effect of changes in foreign exchange rates	(3,299)	(20,367)	(17)	(406)	(24,089)
Other changes	(1,027)	205	361	(1,915)	(2,376)
Total other changes	(4,806)	(20,162)	344	183,947	159,323
31 December 2017	262,669	350,845	2,846	64,566	680,926

Note 19. Taxes payable

	31 December 2017	31 December 2016
Income tax payable	8,963	6,591
Mineral extraction tax	47,175	37,583
VAT	34,147	23,960
Excise taxes	17,750	16,606
Property tax	3,652	3,899
Other taxes	6,797	6,316
Total taxes payable	118,484	94,955

Note 20. Other current liabilities

	31 December 2017	31 December 2016
Advances received	27,698	35,261
Dividends payable	62,254	55,285
Other	3,468	6,564
Total other current liabilities	93,420	97,110

Note 21. Provisions

	Asset retirement obligations	Provision for employee compensations	Provision for environmental liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 December 2016	37,460	35,803	4,489	8,049	4,913	5,245	95,959
Incl.: Non-current	35,939	23,377	2,523	6,531	60	1,514	69,944
Current	1,521	12,426	1,966	1,518	4,853	3,731	26,015
31 December 2017	36,668	36,172	4,176	10,367	5,472	13,360	106,215
Incl.: Non-current	36,478	14	1,683	8,292	54	1,441	47,962
Current	190	36,158	2,493	2,075	5,418	11,919	58,253

Note 21. Provisions (continued)

Asset retirement obligations changed as follows during 2017 and 2016:

	2017	2016
1 January	37,460	32,919
Provisions made during the year	4,951	5,873
Reversal of provisions	(200)	(586)
Provisions used during the year	(1,322)	(103)
Accretion expense	2,687	2,305
Change in discount rate	(2,378)	4,301
Changes in estimates	(4,073)	(2,394)
Foreign currency translation differences	(666)	(3,221)
Other movements	209	(1,634)
31 December	36,668	37,460

Note 22. Pension obligation

The Group sponsors a postretirement defined benefit pension plan that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee). Plan assets and pensions payments are managed by a non-state pension fund, JSC "NPF LUKOIL-GARANT" ("LUKOIL-GARANT"). The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age or invalidity.

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2017 and 2016.

The following table sets out movement in the net liabilities before taxation during 2017 and 2016.

	2017	2016
1 January	8,049	7,913
Components of defined benefit costs recorded in profit or loss	1,009	1,097
Components of defined benefit costs recorded in other comprehensive loss	2,709	1,132
Contributions from employer	(1,702)	(951)
Benefits paid	(666)	(734)
Opening balance adjustment	6	-
Liability assumed in business combination	119	6
Other	843	(414)
31 December	10,367	8,049

Note 23. Equity

Common shares

	31 December 2017 (thousands of shares)	31 December 2016 (thousands of shares)
Authorised and issued common shares, par value of 0.025 RUB each	850,563	850,563
Treasury shares	(140,930)	(137,630)
Outstanding common shares	709,633	712,933

Note 23. Equity (continued)

Dividends

At the extraordinary shareholders' meeting on 4 December 2017, interim dividends for 2017 were approved in the amount of 85.00 RUB per common share.

At the annual shareholders' meeting on 21 June 2017, dividends for 2016 were approved in the amount of 120.00 RUB per common share. At the extraordinary shareholders' meeting on 5 December 2016, interim dividends for 2016 were approved in the amount of 75.00 RUB per common share. Total dividends for 2016 were approved in the amount of 195.00 RUB per common share.

Dividends on the Company's shares payable of 61,283 million RUB and 54,301 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2017 and 2016, respectively.

Earnings per share

The weighted average number of outstanding common shares, used for calculation of earnings per share, was 710,871 and 712,933 thousand shares during the year ended 31 December 2017 and 2016, respectively. There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Note 24. Personnel expenses

Personnel expenses were as follows:

	2017	2016
Salary	127,851	136,035
Statutory insurance contributions	35,387	28,879
Share-based compensation	1,135	20,370
Total personnel expenses	164,373	185,284

Note 25. Finance income and costs

Finance income was as follows:

	2017	2016
Interest income from deposits	5,222	5,878
Interest income from loans	6,715	7,306
Other finance income	3,214	1,572
Total finance income	15,151	14,756

Finance costs were as follows:

	2017	2016
Interest expense	23,116	40,283
Accretion expense	2,705	2,323
Other finance costs	1,510	4,424
Total finance costs	27,331	47,030

Note 26. Other income and expenses

Other income was as follows:

	2017	2016
Gain on disposal of assets	58,233	14,449
Reversal of impairment of assets	28,448	891
Other income	18,176	17,083
Total other income	104,857	32,423

Note 26. Other income and expenses (continued)

Other expenses were as follows:

	2017	2016
Impairment loss	31,386	9,471
Loss on disposal of assets	15,944	12,900
Charity expenses	9,009	12,060
Other expenses	15,586	8,337
Total other expenses	71,925	42,768

Note 27. Income tax

Before 2017, operations in the Russian Federation were subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

For the period from 2017 till 2020 (inclusive) a Federal income tax rate is set as 3.0% and a regional income tax rate varies from 12.5% to 17.0% at the discretion of the individual regional administration.

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

Income tax was as follows:

	2017	2016
Current income tax expense for the year	97,573	55,567
Adjustment for prior periods	2,403	2,603
Current income taxes	99,976	58,170
Deferred income tax	3,786	6,703
Total income tax expense	103,762	64,873

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

	2017	2016
Profit before income taxes	524,184	272,515
Notional income tax at the Russian statutory rate	104,837	54,503
Increase (reduction) in income tax due to:		
Non-deductible items, net	14,614	15,355
Domestic and foreign rate differences	(16,823)	(3,789)
Change in recognised deductible temporary differences	1,134	(1,196)
Total income tax expense	103,762	64,873

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Note 27. Income tax (continued)

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities.

	31 December 2017	31 December 2016
Property, plant and equipment	6,666	8,422
Inventories	6,010	4,556
Accounts receivable	922	678
Accounts payable and provisions	10,931	10,242
Operating loss carry forward	33,516	35,086
Other	1,483	1,718
Total deferred income tax assets	59,528	60,702
Set off of tax	(34,400)	(31,623)
Deferred income tax assets	25,128	29,079
Property, plant and equipment	(254,956)	(253,591)
Investments	(3,348)	(3,452)
Inventories	(6,187)	(6,979)
Accounts receivable	(5,065)	(4,681)
Accounts payable and provisions	(63)	(76)
Other	(2,761)	(2,655)
Total deferred income tax liabilities	(272,380)	(271,434)
Set off of tax	34,400	31,623
Deferred income tax liabilities	(237,980)	(239,811)
Net deferred income tax liabilities	(212,852)	(210,732)

	31 December 2016	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2017
Property, plant and equipment	(245,169)	(3,194)	(918)	991	(248,290)
Investments	(3,452)	94	-	10	(3,348)
Inventories	(2,423)	2,249	-	(3)	(177)
Accounts receivable	(4,003)	(322)	-	182	(4,143)
Accounts payable	10,166	389	(2)	315	10,868
Operating loss carry forward	35,086	(2,665)	-	1,095	33,516
Other	(937)	(337)	3	(7)	(1,278)
Net deferred income tax liabilities	(210,732)	(3,786)	(917)	2,583	(212,852)

	31 December 2015	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2016
Property, plant and equipment	(234,596)	(15,048)	2,424	2,051	(245,169)
Investments	(4,280)	592	-	236	(3,452)
Inventories	(1,968)	(1,167)	529	183	(2,423)
Accounts receivable	(5,500)	1,482	(15)	30	(4,003)
Accounts payable	6,645	3,802	(618)	337	10,166
Operating loss carry forward	36,156	3,134	(2,108)	(2,096)	35,086
Other	(1,829)	502	130	260	(937)
Net deferred income tax liabilities	(205,372)	(6,703)	342	1,001	(210,732)

Note 27. Income tax (continued)

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

	31 December 2017	31 December 2016
Property, plant and equipment	2,433	3,602
Operating loss carry forward	10,790	16,260
Other	1,090	505
Total deferred tax assets	14,313	20,367

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

Amounts recognised in other comprehensive income during 2017:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	2,626	-	2,626
Change in fair value of available-for-sale financial assets	(2,180)	-	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	(2,709)	384	(2,325)
Total	(2,263)	384	(1,879)

Amounts recognised in other comprehensive income during 2016:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(74,175)	-	(74,175)
Remeasurements of defined benefit liability/asset of pension plan	(1,132)	207	(925)
Total	(75,307)	207	(75,100)

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment included 585,547 million RUB and 644,200 million RUB at 31 December 2017 and 2016, respectively. Such amounts are considered to be indefinitely invested and it is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

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

Note 28. Operating lease

At 31 December 2017 and 2016, Group companies had commitments primarily for the lease of vessels, tank-cars, storage facilities and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows:

	31 December 2017	31 December 2016
Less than a year	24,753	31,184
1-5 years	54,917	57,429
More than 5 years	88,277	103,199
Total	167,947	191,812

Note 29. Commitments and contingencies

Capital commitments

At 31 December 2017, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 413,712 million RUB.

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

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

Social assets

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

Taxation environment

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

Note 29. Commitments and contingencies (continued)

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

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

Litigation and claims

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) issued an order on initiation of criminal proceeding and brought charges against PETROTEL-LUKOIL S.A. refinery, a Group company, and its general director based on alleged tax evasion and money laundering. Later the Prosecutor’s Office added bad faith use of the company’s credit and money laundering charges for 2008–2010 against LUKOIL Europe Holdings B.V., a Group company. The amount of the claim was not finalised. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L., Group companies, and a number of Romanian legal entities not affiliated with the Group were also considered to be suspects in this criminal case. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. On 3 November 2017, the Prosecutor’s Office issued an order on discontinuance of criminal proceeding started in June 2014 against PETROTEL-LUKOIL S.A. and its general director on alleged tax evasion and money laundering. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L. and a number of other companies were also dismissed from similar charges. Due to discontinuance of the proceeding all the security measures against PETROTEL-LUKOIL S.A. (seizure of fixed assets and accounts blocking for the amount of more than \$24 million (1.4 billion RUB)) have been removed.

In July 2015, a charge in respect of bad faith use of the company’s credit and money laundering was brought against the general director and several officers of PETROTEL-LUKOIL S.A. Similar charges was brought against LUKOIL Europe Holdings B.V. and PETROTEL-LUKOIL S.A. for 2011–2014. On 3 August 2015, the Prosecutor’s Office issued the final indictment on the new charges and submitted the case to the Prahova Tribunal for further consideration by the preliminary chamber judge. The allegations of bad faith use of the company’s credit in respect of PETROTEL-LUKOIL S.A. were excluded from the final indictment. Following the preliminary hearing the Prosecutor’s Office revised the amount of damage claimed from \$2.2 billion (126.7 billion RUB) to \$1.5 billion (86.4 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor’s Office. The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, on 22 January 2016 the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal. On 18 April 2016, the preliminary hearing chamber of the Prahova Tribunal decided on the hearing of the case on the merits. Moreover, on 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. On 27 January 2017, a court hearing took place and the attorneys requested that an expert examination be performed. On 19 May 2017, the Prahova Tribunal issued a decision on appointment of experts. On 12 October 2017, expert examination was completed and expert conclusion was sent to the Prahova Tribunal. Last hearing when statement of the accused was repeated due to replacement of the judge in the proceeding was held on 12 March 2018. Next hearing is scheduled on 16 April 2018. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustive set of evidence to fully rebut the charges brought by the Prosecutor’s Office. Management does not believe that the outcome of this matter will have a material adverse effect on the Group’s financial position.

Note 29. Commitments and contingencies (continued)

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with respect to cost recovery in 2010–2013 (the “CR”) and the calculation of the “Fairness index” (the “FI”) in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration which is at its initial stage, and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact of the disclosure on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group’s financial position.

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

Political situation

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

In August – October 2017, the US expanded abovementioned sanctions to include international oil projects initiated on or after 29 January 2018 that have the potential to produce oil in any location, and in which companies placed on the Sectoral Sanctions Identifications List (subject to Directive 4) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

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

Note 30. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from associates and joint ventures. Other financial assets mostly represent loans given to associates and joint ventures.

Note 30. Related party transactions (continued)

Outstanding balances with related parties:

	31 December 2017	31 December 2016
Accounts receivable	10,567	8,209
Other financial assets	82,288	93,453
Total assets	92,855	101,662
Accounts payable	6,696	8,436
Loans and borrowings	3,170	3,743
Total liabilities	9,866	12,179

Related party transactions were as follows:

	2017	2016
Sales of oil and oil products	14,927	19,972
Other sales	4,055	6,576
Purchases of oil and oil products	86,548	78,060
Other purchases	7,388	6,983
Loans given	4,988	16,279
Loans received	3,912	4,625

During 2017, a Group company acquired from a related party 3 300 000 shares of the Company for 9,474 million RUB.

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,588 million RUB and 5,519 million RUB during 2017 and 2016, respectively. These amounts also include accruals related to compensation plan, which is disclosed in Note 31 “Compensation plan”.

Note 31. Compensation plan

In December 2012, the Company introduced a compensation plan available to certain members of management for the period from 2013 to 2017, which was based on assigned shares and provided compensation consisting of two parts. The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses was contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company’s common shares appreciation from 2013 to 2017, with rights vested after the date of the compensation plan’s termination. The number of assigned shares was approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The grant date fair value of this part of the plan was estimated at 7.6 billion RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 6.50% per annum, an expected dividend yield of 4.09% per annum, an expected time to maturity of five years and a volatility factor of 16.1%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company’s shares for the previous seven year period up to January 2013.

Related to this share plan the Group recognised 35,878 million RUB of compensation expense for the whole period, of which 1,135 million RUB and 20,370 million RUB during 2017 and 2016, respectively. At 31 December 2017 and 2016 amounts of 24,602 million RUB and 26,921 million RUB related to this plan were included in “Provisions” of the consolidated statement of financial position, respectively. The total recognized tax benefits related to these accruals amounted to 7,089 million RUB for the whole period, of which 227 million RUB and 3,987 million RUB during 2017 and 2016, respectively.

In late December 2017, the Company introduced a new compensation plan to certain members of management. The Group is currently in the process of implementing the program.

Note 32. Segment information

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

The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group’s traditional operations.

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

Operating earnings are supplemental non-IFRS financial measure used by management to evaluate segments performance. Operating earnings are defined as profit before finance income and expense, income tax expense, depreciation, depletion and amortisation.

Operating segments

2017	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	160,780	5,745,957	29,968	-	5,936,705
Inter-segment	1,553,442	71,140	45,522	(1,670,104)	-
Total revenues	1,714,222	5,817,097	75,490	(1,670,104)	5,936,705
Operating expenses	265,911	235,052	21,432	(65,630)	456,765
Selling, general and administrative expenses	48,671	129,902	25,496	(38,738)	165,331
Profit for the year	269,670	135,102	15,466	(1,433)	418,805
Operating earnings	560,861	267,412	31,081	447	859,801
Income tax expense					(103,762)
Finance income					15,151
Finance costs					(27,331)
Depreciation, depletion and amortisation					(325,054)
Profit for the year attributable to PJSC LUKOIL shareholders					418,805

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Note 32. Segment information (continued)

2016	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	156,834	5,029,489	40,722	-	5,227,045
Inter-segment	1,445,827	67,509	47,433	(1,560,769)	-
Total revenues	1,602,661	5,096,998	88,155	(1,560,769)	5,227,045
Operating expenses	265,216	217,010	22,022	(47,815)	456,433
Selling, general and administrative expenses	38,926	131,561	58,491	(32,822)	196,156
Profit (loss) for the year	215,922	113,703	(129,924)	7,093	206,794
Operating earnings	496,541	228,766	(114,037)	4,259	615,529
Income tax expense					(64,873)
Finance income					14,756
Finance costs					(47,030)
Depreciation, depletion and amortisation					(311,588)
Profit for the year attributable to PJSC LUKOIL shareholders					206,794

Geographical segments

	2017	2016
Sales of crude oil within Russia	37,525	94,985
Export of crude oil and sales of crude oil by foreign subsidiaries	1,641,238	1,353,334
Sales of petroleum products within Russia	776,002	634,326
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,144,226	2,818,058
Sales of chemicals within Russia	34,451	38,092
Export of chemicals and sales of chemicals by foreign subsidiaries	48,187	34,711
Sales of gas within Russia	31,109	27,030
Sales of gas by foreign subsidiaries	54,611	33,663
Sales of energy and related services within Russia	61,028	61,920
Sales of energy and related services by foreign subsidiaries	12,884	14,178
Other sales within Russia	45,727	46,867
Other export sales and other sales of foreign subsidiaries	49,717	69,881
Total sales	5,936,705	5,227,045

2017	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,064,086	4,872,619	-	5,936,705
Inter-segment	1,197,440	3,713	(1,201,153)	-
Total revenues	2,261,526	4,876,332	(1,201,153)	5,936,705
Operating expenses	333,178	117,467	6,120	456,765
Selling, general and administrative expenses	97,804	72,724	(5,197)	165,331
Profit for the year	381,351	40,411	(2,957)	418,805
Operating earnings	706,878	155,649	(2,726)	859,801

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Note 32. Segment information (continued)

2016	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	947,461	4,279,584	-	5,227,045
Inter-segment	1,027,215	2,497	(1,029,712)	-
Total revenues	1,974,676	4,282,081	(1,029,712)	5,227,045
Operating expenses	322,258	117,794	16,381	456,433
Selling, general and administrative expenses	111,297	88,610	(3,751)	196,156
Profit for the year	196,150	4,792	5,852	206,794
Operating earnings	467,329	141,575	6,625	615,529

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

	2017	2016
Sales revenues		
in Switzerland	2,755,567	2,380,957
in the USA	572,264	421,930
in Singapore	457,913	341,396

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

Note 33. Subsidiaries

Key subsidiaries

The most significant subsidiaries of the Group are presented below:

Subsidiary	Country of incorporation	31 December 2017		31 December 2016	
		Total shares	Voting shares	Total shares	Voting shares
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%
LUKOIL International Upstream Holding B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL-West Siberia LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Perm LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Komi LLC	Russia	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%
LUKOIL-Permnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhegorodnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhnevolzhskneft LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Volgogradneftepererabotka LLC	Russia	100.00%	100.00%	100.00%	100.00%
RITEK JSC	Russia	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftochim Bourgas AD	Bulgaria	99.83%	99.83%	99.82%	99.82%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
Soyuzneftegaz Vostok Limited	Cyprus	100.00%	100.00%	100.00%	100.00%

Note 34. Fair value

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

The following table shows the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2017 and 2016:

31 December 2017	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	11,634	-	11,634	-	11,634
Available for sale securities	5,106	-	-	5,106	5,106
Financial liabilities:					
Commodity derivative contracts	11,978	-	11,978	-	11,978
Loans and borrowings	597,691	368,811	-	260,214	629,025
31 December 2016					
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	13,380	-	13,380	-	13,380
Available for sale securities	7,437	-	-	7,437	7,437
Financial liabilities:					
Commodity derivative contracts	36,935	-	36,935	-	36,935
Loans and borrowings	680,542	414,214	-	290,622	704,836

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2017 and 2016.

Note 35. Capital and risk management

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

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

Note 35. Capital and risk management (continued)

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

Credit risk

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

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

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

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2017	31 December 2016
Not past due	352,629	305,183
Past due less than 90 days	33,825	22,973
Past due from 90 to 180 days	4,587	17,994
Past due from 180 to 270 days	6,999	9,318
Past due from 270 to 365 days	5,537	1,665
Past due more than 365 days	14,695	3,764
Total trade and other receivables	418,272	360,897

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

Allowance for doubtful accounts receivable changed as follows:

	2017	2016
1 January	20,189	18,921
Increase in allowance for doubtful debts charged to profit and loss	6,130	6,192
Write-off	(2,922)	(2,187)
Foreign currency translation differences	(579)	(2,615)
Other	(859)	(122)
31 December	21,959	20,189

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

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

Note 35. Capital and risk management (continued)

Liquidity risk

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

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

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	263,202	304,938	52,147	50,855	158,868	43,068
Bonds, including interest expense	353,595	421,167	103,998	46,588	111,993	158,588
Finance lease obligations	2,846	5,344	1,398	1,311	2,635	-
Trade and other payables	545,734	545,734	545,113	192	319	110
Derivative financial liabilities	11,978	11,978	11,978	-	-	-
31 December 2017	1,177,355	1,289,161	714,634	98,946	273,815	201,766

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	296,425	374,611	44,220	38,968	247,138	44,285
Bonds, including interest expense	402,607	500,552	50,800	109,234	134,143	206,375
Finance lease obligations	3,558	5,495	1,149	1,151	3,167	28
Trade and other payables	510,333	510,333	509,755	134	302	142
Derivative financial liabilities	36,935	36,935	36,935	-	-	-
31 December 2016	1,249,858	1,427,926	642,859	149,487	384,750	250,830

Currency risk

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

As part of the centralized approach to management of the treasury operations and liquidity of the Group, the risks associated with unfavorable changes in the exchange rates are generally consolidated at the corporate level. In a number of cases currency risks at trading floors are minimized due to the financial derivative operations conducted as part of the corporate dealing process. Moreover, to mitigate its foreign exchange risks, the loans to Group companies are granted in local currencies as part of inter-group financing.

Note 35. Capital and risk management (continued)

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2017 and 2016 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

31 December 2017	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	68,136	11,781	1,034
Trade and other receivables	162,005	1,787	4,727
Loans	175,173	3,548	-
Other financial assets	2,181	6	12
Financial liabilities:			
Loans and borrowings	(103,680)	(33,041)	(87)
Trade and other payables	(68,694)	(5,688)	(7,146)
Net exposure	235,121	(21,607)	(1,460)

31 December 2016	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	112,147	57,632	727
Trade and other receivables	123,313	2,365	564
Loans	469,756	6,246	-
Other financial assets	961	12	10
Financial liabilities:			
Loans and borrowings	(67,790)	(59,999)	(1,188)
Trade and other payables	(32,489)	(4,337)	(624)
Net exposure	605,898	1,919	(511)

The following exchange rates applied:

	31 December 2017	31 December 2016
USD	57.60	60.66
EUR	68.87	63.81

Sensitivity analysis

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2017 and 2016 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2017	2016
US Dollar (increase by 10%)	22,026	55,080
Euro (increase by 10%)	(249)	3,138
Russian ruble (increase by 10%)	(19,384)	(52,445)

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

Interest rate risk

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

Note 35. Capital and risk management (continued)

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

The interest rate profiles of the Group are presented below:

	31 December 2017	31 December 2016
<i>Fixed rate instruments:</i>		
Financial assets	45,354	79,951
Financial liabilities	(367,525)	(417,333)
Net exposure	(322,171)	(337,382)
<i>Variable rate instruments:</i>		
Financial assets	49,244	30,879
Financial liabilities	(248,835)	(281,257)
Net exposure	(199,591)	(250,378)

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2017 and 2016 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
2017		
Net financial liabilities	(1,996)	1,996
2016		
Net financial liabilities	(2,504)	2,504

Capital management

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

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

	31 December 2017	31 December 2016
Total debt	616,360	698,590
Less cash and cash equivalents	(330,390)	(261,367)
Net debt	285,970	437,223
Equity	3,490,399	3,227,664
Net debt to equity ratio	8.19%	13.55%

Supplementary Information on Oil and Gas Exploration and Production Activities

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

- I. Capitalised costs relating to oil and gas producing activities.
- II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
- III. Results of operations for oil and gas producing activities.
- IV. Reserve quantity information.
- V. Standardised measure of discounted future net cash flows.
- VI. Principal sources of changes in the standardised measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalised costs relating to oil and gas producing activities

31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	61,885	78,372	140,257	22,684
Proved oil and gas properties	1,104,857	2,657,153	3,762,010	185,749
Accumulated depreciation, depletion, and amortisation	(571,017)	(659,700)	(1,230,717)	(53,333)
Net capitalised costs	595,725	2,075,825	2,671,550	155,100

31 December 2016	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	61,053	66,764	127,817	25,492
Proved oil and gas properties	1,013,911	2,336,322	3,350,233	174,337
Accumulated depreciation, depletion, and amortisation	(569,135)	(488,981)	(1,058,116)	(59,880)
Net capitalised costs	505,829	1,914,105	2,419,934	139,949

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

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	1,520	1,520	-
Acquisition of properties – unproved	-	2,972	2,972	-
Exploration costs	6,715	26,791	33,506	1,382
Development costs	129,468	299,738	429,206	8,897
Total costs incurred	136,183	331,021	467,204	10,279

2016	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	354	354	-
Acquisition of properties – unproved	-	123	123	-
Exploration costs	13,828	22,467	36,295	885
Development costs	137,582	269,076	406,658	14,624
Total costs incurred	151,410	292,020	443,430	15,509

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)**III. Results of operations for oil and gas producing activities**

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

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	112,088	704,254	816,342	47,044
Transfers	-	705,802	705,802	1,243
Total revenues	112,088	1,410,056	1,522,144	48,287
Production costs (excluding production taxes)	(31,405)	(177,554)	(208,959)	(6,125)
Exploration expense	(2,775)	(9,573)	(12,348)	(21)
Depreciation, depletion, and amortisation	(43,949)	(174,683)	(218,632)	(7,446)
Taxes other than income taxes	(475)	(709,670)	(710,145)	(10,955)
Related income taxes	(6,766)	(53,041)	(59,807)	(8,544)
Total results of operations for producing activities	26,718	285,535	312,253	15,196

2016	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	134,682	635,130	769,812	41,014
Transfers	-	555,018	555,018	1,331
Total revenues	134,682	1,190,148	1,324,830	42,345
Production costs (excluding production taxes)	(45,813)	(165,641)	(211,454)	(7,373)
Exploration expense	(6,232)	(2,061)	(8,293)	(1)
Depreciation, depletion, and amortisation	(57,521)	(154,226)	(211,747)	(7,098)
Taxes other than income taxes	(1,072)	(549,150)	(550,222)	(12,349)
Related income taxes	(4,638)	(58,686)	(63,324)	(5,590)
Total results of operations for producing activities	19,406	260,384	279,790	9,934

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which according to geological and engineering data are going to be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. Existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies to both newly issued and old licenses and the Group has currently renewed 65% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

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

Estimated net proved oil and gas reserves and changes thereto for 2017 and 2016 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Crude oil				
31 December 2015	542	11,780	12,322	263
Revisions of previous estimates	127	(117)	10	47
Extensions and discoveries	10	512	522	4
Production	(51)	(614)	(665)	(21)
31 December 2016	628	11,561	12,189	293
Revisions of previous estimates	(128)	(55)	(183)	(5)
Purchase of hydrocarbons in place	-	11	11	-
Extensions and discoveries	8	408	416	14
Production	(29)	(609)	(638)	(20)
31 December 2017	479	11,316	11,795	282

Proved developed reserves

31 December 2016	287	7,614	7,901	124
31 December 2017	250	7,331	7,581	131

The non-controlling interest share included in the above total proved reserves was 94 million barrels and 74 million barrels at 31 December 2017 and 2016, respectively. The non-controlling interest share included in the above proved developed reserves was 57 million barrels and 37 million barrels at 31 December 2017 and 2016, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Natural gas				
31 December 2015	7,118	16,490	23,608	230
Revisions of previous estimates	201	192	393	(35)
Extensions and discoveries	9	168	177	-
Production	(270)	(580)	(850)	(30)
31 December 2016	7,058	16,270	23,328	165
Revisions of previous estimates	157	563	720	29
Extensions and discoveries	140	281	421	5
Production	(349)	(638)	(987)	(32)
31 December 2017	7,006	16,476	23,482	167

Proved developed reserves:

31 December 2016	2,960	5,309	8,269	105
31 December 2017	5,409	5,558	10,967	121

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2017 and 2016. The non-controlling interest share included in the above proved developed reserves was 13 and 15 billion cubic feet at 31 December 2017 and 2016, respectively. All non-controlling interests relate to reserves in the Russian Federation.

V. Standardised measure of discounted future net cash flows

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

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

			Total consolidated companies	Group's share in equity companies
31 December 2017	International	Russia		
Future cash inflows	2,460,227	23,774,561	26,234,788	685,571
Future production and development costs	(1,663,223)	(17,196,531)	(18,859,754)	(447,375)
Future income tax expenses	(54,737)	(1,018,876)	(1,073,613)	(43,283)
Future net cash flows	742,267	5,559,154	6,301,421	194,913
Discount for estimated timing of cash flows (10% p.a.)	(331,525)	(3,110,698)	(3,442,223)	(100,127)
Discounted future net cash flows	410,742	2,448,456	2,859,198	94,786
Non-controlling share in discounted future net cash flows	-	22,136	22,136	-
			Total consolidated companies	Group's share in equity companies
31 December 2016	International	Russia		
Future cash inflows	2,337,071	20,052,599	22,389,670	581,197
Future production and development costs	(1,855,925)	(14,044,066)	(15,899,991)	(446,695)
Future income tax expenses	(51,750)	(920,857)	(972,607)	(25,659)
Future net cash flows	429,396	5,087,676	5,517,072	108,843
Discount for estimated timing of cash flows (10% p.a.)	(261,818)	(2,875,407)	(3,137,225)	(63,593)
Discounted future net cash flows	167,578	2,212,269	2,379,847	45,250
Non-controlling share in discounted future net cash flows	-	18,805	18,805	-

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***VI. Principal sources of changes in the standardised measure of discounted future net cash flows***

Consolidated companies	2017	2016
Discounted present value at 1 January	2,379,847	3,904,557
Net changes due to purchases and sales of minerals in place	2,167	60
Sales and transfers of oil and gas produced, net of production costs	(590,692)	(554,861)
Net changes in prices and production costs estimates	1,641,159	(4,451,693)
Net changes in mineral extraction taxes	(1,129,879)	2,667,624
Extensions and discoveries, less related costs	104,704	98,911
Previously estimated development cost incurred during the year	349,720	469,271
Revisions of previous quantity estimates	(26,040)	(45,374)
Net change in income taxes	(44,824)	346,583
Accretion of discount	262,831	436,285
Other changes	(89,795)	(491,516)
Discounted present value at 31 December	2,859,198	2,379,847
Group's share in equity companies	2017	2016
Discounted present value at 1 January	45,250	101,224
Net changes due to purchases and sales of minerals in place	-	62
Sales and transfers of oil and gas produced, net of production costs	(31,186)	(22,622)
Net changes in prices and production costs estimates	101,022	(120,495)
Net changes in mineral extraction taxes	(47,336)	61,202
Extensions and discoveries, less related costs	4,402	590
Previously estimated development cost incurred during the year	27,167	14,312
Revisions of previous quantity estimates	(316)	6,950
Net change in income taxes	(7,185)	10,302
Accretion of discount	5,791	11,365
Other changes	(2,823)	(17,640)
Discounted present value at 31 December	94,786	45,250

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