

KEY EVENTS AND YEAR RESULTS

Oil and gas exploration and production

Oil and gas exploration and production form the central link in LUKOIL Group operations and are the main creators of value for the Company. We possess a high-quality portfolio of assets that are diversified in terms of both geography and type of reserve.

Proven oil and gas reserves consist primarily of those in the conventional category. In 2018 these stood at 15.9 billion BOE¹, of which oil made up 76%. In the reporting year, the main increases in proven oil and gas reserves were achieved in West Siberia and Timan-Pechora.

The production of hydrocarbons (excluding the West Qurna-2 project) rose by 3.8% compared to 2017, mainly as a result of the advanced development of gas projects in Uzbekistan. Annual oil production, taking into account external constraints, remained at the 2017 level, while production growth was seen at high-production fields in the Caspian Sea and at mature fields in Western Siberia and Timan-Pechora, as a result of effective production management.

- The gas processing plant at the **Kandym group of fields in Uzbekistan was put into operation ahead of schedule.**
- The **V. Filanovsky field reached planned capacity, and a final investment decision was made on the infrastructure development project at the Rakushechnoye field (both fields are in the Caspian Sea).**
- A **water steam production plant was put into operation at the Yaregskoye field to further increase the extraction of tight reserves.**

Refining, marketing, and distribution

We aim to use the natural resources we extract with maximum efficiency. Our priority is to boost operating efficiency and to ensure that the structure of our output matches the needs of consumers and market demand.

During 2018, the production of petroleum products at the Group's Russian and foreign refineries remained at the 2017 level, despite repair work being carried out at the ISAB plant². In the reporting year, the depth of processing was further increased through the use of alternative raw materials and the reloading of secondary processes, including by deepening inter-plant integration. The Group's petroleum product portfolio saw a further reduction in fuel oil production and an increase in light petroleum products and high-margin products.

In order to increase the efficiency of retail network management at gas stations, the business sector of petroleum products supply in Russia was restructured: eight management organizations were combined into four. In the reporting year, the Company retained its position as one of the largest suppliers of bunker fuel, and also expanded direct retail sales of jet fuel.

- The **Nizhegorodsky refinery in Kstovo began construction of delayed coking and isomerization units.**
- A **fueling facility at Sheremetyevo International Airport was commissioned.**
- **Launch of the program for development of new types of oils that meet promising requirements was undertaken jointly with the world's leading manufacturers of automobiles and industrial equipment.**
- **Signing of a cooperation agreement to develop green energy projects in the Republic of Kazakhstan.**

The operational and financial activities of LUKOIL Group are coordinated by a head office located in Moscow, and are divided into three business segments: Exploration and production; Refining, marketing, and distribution; and Corporate Center and Others.



More complete information about LUKOIL Group's production and financial activities is available in the financial reports



The 2018 Data Book



¹ Oil equivalent under the SEC (US Securities and Exchange Commission) classification

² For the full names of organizations in accordance with IFRS see Appendix 3.

Key financial and production indicators

	2016	2017	2018
Financial			
EBITDA, RUB billion	731	832	1,115
Total debt to EBITDA, %	96	74	48
Labor productivity, RUB million/person	50	57	78
Capital expenditure, RUB billion	497	511	452
Free cash flow, RUB billion	255	247	555
Research and technical expenses, RUB billion	6	6	6
Number of patents received	23	20	37
Production			
Production of oil and gas condensate (including the share in affiliates), million barrels	676	645	644
Crude oil production (including the share in affiliates), thousand tons	91,992	87,414	87,124
Gas production, million cubic meters	24,922	28,861	33,543
including APG	9,272	8,942	8,772
Output of petroleum products, thousand tons ³	63,069	69,908	70,188
Full cycle lubricant production, thousand tons	917	998	961
Output of petrochemicals, thousand tons	1,270	1,171	1,246

Note. The decline in capital expenditure was due to the completion of the main scope of work to develop the Gissar and Kandym fields.

Economic value generated and distributed, RUB million

	2016	2017	2018
Direct economic value generated	5,256,250	6,010,089	8,058,338
Revenue	5,227,045	5,936,705	8,035,899
Income from financial investments	14,756	15,151	19,530
Income from the sale of tangible assets	14,449	58,233	2,919
Distributed economic value	(4,741,979)	(5,380,245)	(7,277,460)
Operating expenses	(3,413,258)	(3,908,114)	(5,297,908)
Employee payroll	(136,035)	(127,851)	(135,671)
Other employee payments and benefits	(20,370)	(1,135)	(31,300)
Payments to providers of capital	(175,435)	(166,125)	(195,669)
including dividends paid	(130,728)	(141,499)	(160,365)
including interest paid to creditors	(44,707)	(24,626)	(35,304)
Payments to the government	(984,821)	(1,168,011)	(1,608,127)
Investments in society	(12,060)	(9,009)	(8,785)
Undistributed economic value	514,271	629,844	780,878

Notes. **Income from financial investments** = Income from interest on deposits + Income from interest on issued loans + Other finance income.

Income from the sale of tangible assets = Profit from the sale and disposal of assets.

Operating expenses = Operating expenses + Cost of acquired oil, gas, and products of their processing + Transportation expenses + Sales, general and administrative expenses - Employee payroll - Other employee payments and benefits + Costs of geological and exploration works.

Employee payroll = remuneration of labor (including remuneration, estimated liabilities, compensation and incentive payments, pension insurance, voluntary medical insurance, accident voluntary insurance).

Other employee payments and benefits = Incentive program accruals.

Dividends paid = Dividends paid on the shares of the Company + Dividends paid to the holders of non-controlling interests.

Interest paid to creditors = Interest expenses + Other finance expenses.

Payments to the government = Taxes (other than income tax) + Excise and export duties + Current income tax.

Investments in society = Charitable expenses.



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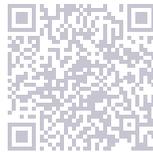
³At own, affiliated, and third-party refineries (by Group share).

International sustainability projects, programs, and initiatives in which LUKOIL Group / PJSC LUKOIL participates:

The European Business Network for Corporate Social Responsibility



The World Bank and UN initiative, "Zero Routine Flaring by 2030"



The United Nations Global Compact



The UN Development Program in Russia "Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations"



The Cooperation Agreement for 2018-2022 between the International Labor Organization and Public Joint-Stock Company "Oil company 'LUKOIL'"



RUSSIAN INITIATIVES

The Business and Biodiversity Initiative under the Russian federal project entitled "Conserving Biodiversity and Developing Ecotourism".



Position in ratings and rankings in 2018

INTERNATIONAL

ESG Score (Thompson Reuters - Refinitive ESG Score)

84 (A)

ESG Score

Calculated on the basis of corporate information on sustainability.
High level: ranked 6th out of 360 global oil and gas and energy companies

MSCI

BB

Rating

A high level for Russian companies

Carbon Disclosure Project (CDP Climate)

D

Level

Corresponds to the level of most Russian companies

Corporate Human Rights Benchmark (CHRB)

48

Ranked (out of 102)

Corresponds to the average level of international companies and the best level among Russian companies

ISS-oekom

1

Environment score

The ratings correspond to the minimum risk level of a 10-point scale

1

Social score

RUSSIAN

RSPB indices Responsibility and Transparency and Sustainability Vector

High
level

Among Russian companies - Top 10

ESG RANKING (RAEX-600)

1st

Ranked

Out of 30 finalist companies

Transparency rating of Russian oil and gas companies in the field of environmental responsibility (WWF - Creon)

1st

Ranked

In the "Transparency regarding accidents and incidents" category

Innovation Perception Index

4.29

(of 5.0)

The best result among 18 fuel and energy sector companies