

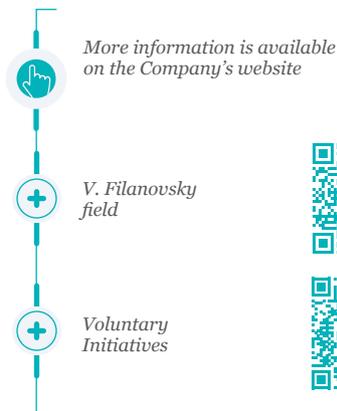
Oil and gas exploration and production

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.

The implementation of system-wide measures to improve the reliability of pipeline transportation helped us achieve the lowest specific rate of pipeline failure for six years.

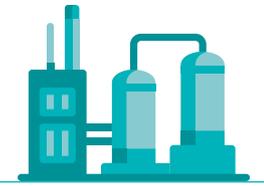
Proved oil and gas reserves consist mainly of those in the conventional category. In 2017 these amounted to 16.0 billion BOE¹, of which oil made up 75%. In the reporting year, the main increases in proved oil and gas reserves were achieved in Western Siberia and fields in the Caspian Sea.

The operation of the V. Filanovsky field (situated in the Russian sector of the Caspian Sea) made a significant contribution to the trend in oil production in 2017: it produced 4.6 million tonnes during the year, which exceeded the target level. The Company began production drilling as part of the field's second development phase – here the “zero discharge” principle is also applied.²



We continued to actively implement projects to develop hard-to-recover reserves (high-viscosity oil in the Yaregskoye field and Permian-Carboniferous deposit of the Usinskoye field in the Komi Republic). This year, record amounts of oil were produced at these fields: 1.1 million and 2.3 million tonnes, respectively.

Although there was a slight drop in total oil production in the year, under conditions of external limitations, gas production rose considerably (a 16% rise compared to 2016), as a result of the commencement of gas extraction at the Pyakyakhinskoye field in the Yamal-Nenets Autonomous Area in Russia and a doubling of gas production under the Gissar project in Uzbekistan.



Thanks to the construction and commissioning of new facilities to utilize associated petroleum gas (APG), the utilization rate in 2017 **exceeded 95%** for Russian organizations, better even than the planned indicators and target benchmarks determined at the national level.

We believe this result represents a significant achievement, even taking into account the Company's participation in the Zero Routine Flaring³ by 2030 initiative by the World Bank and the UN.

¹ Barrels of oil equivalent under the SEC classification (US Securities and Exchange Commission).

² The “zero discharge” means that all the operational waste generated at the drilling rig except for water in the power units' external cooling circuit is taken to onshore facilities where it is treated, neutralized, and recycled. This way the Company avoids marine environment pollution.

³ The Zero Routine Flaring by 2030 Initiative is a joint initiative between the United Nations and the World Bank to reduce the routine flaring and dispersal of associated gas during the production of hydrocarbons. The routine flaring and dispersal of associated petroleum gas is understood to mean a situation where volumes of produced associated petroleum gas exceed the requirements of the production entity in energy resources, and there are no technologies for their capture, utilization, or possible sale. Unlike the sporadic flaring and dispersal of associated petroleum gas (related to scheduled repairs, the maintenance and supervision of equipment, the testing and servicing of wells, breaks to the seals of equipment, starting the engine of a compressor, the binding of pipelines, and other similar events), the routine flaring of associated petroleum gas can be reduced significantly if market participants coordinate their actions. The application of the best available technologies and improvements in the market mechanisms used to sell natural gas are the underlying approaches for attaining the objective within the framework of the initiative.

