

## Refining, marketing, and distribution

We aim to use the natural resources we extract with maximum efficiency. After completing a wide-ranging modernization program at Russian and foreign refineries<sup>1</sup>, the refining depth of oil reached 86.7% and 86.9%, respectively, at these refineries. Over the past three years light product yield has risen by almost 10 percentage points, while the annual increase in the level of primary oil refining at Russian and European own refineries and contracted refineries was 10% (2017 versus 2016). In 2017 a decision was taken to build a delayed coker complex at the Nizhny Novgorod Refinery, similar to the unit operating at the Perm Refinery, which will make it possible to increase the light products yield by more than 10 percentage points.

Our priority in this area of activity is to boost operating efficiency and to ensure that the structure of our output matches the needs of consumers and market demand.

In 2017 we achieved the highest level of marine fuel sales for five years, including environmentally friendly marine fuel<sup>2</sup> sales. As part of our strategy in this area, we are preparing to produce marine fuel with an



**Main brands: the ECTO line of gasoline and diesel (including the new ECTO 100 brand, with an octane number of more than 100) and the GENESIS line of oil.**

even lower sulfur content (down to 0.5%), in order to ensure timely compliance with the requirements of the International Maritime Organization (IMO), pursuant to which such fuel must be in use from 2020.

At the end of 2017 our marketing network for motor fuels comprised 5,258 filling stations<sup>3</sup>, 50% of which were located in Russia.

In 2017 we continued to develop our advanced electronic fuel quality control system, which allows us to track the movement of petroleum products from refineries to end users.

In 2017 we opened an online store to sell lubricants and presented our products in the virtual shop windows of the largest international and Russian digital outlets. This expands the availability of our products for consumers in any country in the world.

## Power generation and renewable energy

Our power-generating and distribution assets provide heat and electricity to both external consumers (commercial power generation) and for own needs (supply power generation). Our power stations operate on natural gas (of these the largest producer of electricity is LUKOIL-Kubanenergo), while the largest suppliers of heat are LUKOIL-Volgogradenergo and LUKOIL-Rostovenergo.

In 2017 a solar power station was built in Volgograd that provides an annual output of over 10 million kWh of electricity. The station will help reduce greenhouse gas emissions.

We strive to use all contemporary methods of energy generation, including renewable energy. We have solar and wind energy facilities (in Bulgaria and Romania) and hydroelectric power facilities (in Russia).

More complete information on the LUKOIL Group's production and financial performance can be found in

- 
[LUKOIL 2017 Annual Report](#)
- 
[The 2017 Data Book](#)
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[and other materials](#)



<sup>1</sup> At our own refineries, including Zeeland.

<sup>2</sup> Fuel that meets MARPOL requirements (the International Convention for the Prevention of Pollution from Ships, 1973, as amended 1978, MARPOL 73/78) regarding the content of pollutants in air emissions of combustion products in sulfur emission control areas (SECA) – the North Sea and Baltic Sea, and part of the US coast – as well as waterways of the European Union.

<sup>3</sup> Company-owned, leased, and franchised, including mothballed stations.

Despite external limitations on oil production as part of an agreement with OPEC, and increases in rates of excise and mineral extraction tax in Russia, LUKOIL

achieved good financial results in 2017. Progress made during the reporting year was secured by increasing the share of high-margin projects in the structure of

oil production, growth in gas production in Russia and Uzbekistan, an improved product output structure at refineries, and reduced costs.

## Key indicators

### KEY FINANCIAL AND PRODUCTION INDICATORS

	2015	2016	2017
<b>Financial</b>			
EBITDA, RUB billion	816.7	730.7	831.6
Total debt/EBITDA	1.1	1.0	0.7
Capital expenditure, RUB billion	600.6	497.1	511.5
Adjusted net profit, RUB billion	363.5	303.8	399.4
Research and technical costs, RUB billion	5.5	5.8	5.8
Number of patents received	20	23	20
<b>Production</b>			
Production of oil and gas condensate (including shares in affiliates), million barrels	736	676	645
Crude oil production (including share by equity affiliates), thousand tonnes	100,688	91,992	87,414
Gas production, billion cubic meters	23,966	24,922	28,861
including APG	8,378	9,272	8,942
Petroleum products output, thousand tonnes <sup>4</sup>	61,750	63,069	69,908
Full cycle lubricant production, thousand tonnes	812	917	998
Lubricant blending, thousand tonnes	117	118	128
Output of petrochemicals, thousand tonnes	1,074	1,270	1,171

### ECONOMIC VALUE CREATED AND DISTRIBUTED, RUB million

	2015	2016	2017
<b>Direct economic value created</b>	<b>5,810,758</b>	<b>5,256,250</b>	<b>6,010,089</b>
Revenue	5,749,050	5,227,045	5,936,705
Income from financial investments	17,763	14,756	15,151
Income from sale of material assets	43,945	14,449	58,233
<b>Direct economic value distributed</b>	<b>(5,202,356)</b>	<b>(4,741,979)</b>	<b>(5,380,245)</b>
Operating expenses	(3,702,873)	(3,413,258)	(3,908,114)
Employee payroll	(126,506)	(136,035)	(127,851)
Other employee payments and benefits	(4,837)	(20,370)	(1,135)
Payments to providers of capital	(161,747)	(175,435)	(166,125)
including dividends paid	(115,106)	(130,728)	(141,499)
including interest paid to creditors	(46,641)	(44,707)	(24,626)
Payments to the government	(1,198,464)	(984,821)	(1,168,011)
Investments in society	(7,929)	(12,060)	(9,009)
<b>Undistributed economic value</b>	<b>608,402</b>	<b>514,271</b>	<b>629,844</b>

<sup>4</sup> At the Group's refineries, subsidiary refineries, and third-party refineries (by Group share).

Comment. **Income from financial investments** = Income from interest on deposits + Income from interest on issued loans + Other financial income. **Income from the sale of tangible assets** = Profit from the sale and disposal of assets. **Operating expenses** = Cost of acquired oil, gas and processed products thereof + Transportation expenses + Sale, general and administrative expenses – Employee payroll – **Other employee payments and benefits** = Salary (including remuneration, estimated liabilities, compensation + incentive payments, pension insurance, voluntary medical insurance, accident voluntary insurance). **Other employee payments and benefits** = Accruals on the remuneration program. **Paid dividends** = Dividends paid on the shares of the Company + Dividends paid to the holders of non-controlling interests. **Paid interest to creditors** = Interest expenses + Other financial expenses. **Payments to the government** = Taxes (other than income tax) + Excise and export duties + Current income tax. **Investments in society** = Charitable expenses.