



LUKOIL

PJSC LUKOIL

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

**for the three months ended 31 December and 30 September 2018
and for the years 2018 and 2017**

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2018 and the results of its operations for the three months ended 31 December and 30 September 2018 and for the years 2018 and 2017, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards (“IFRS”) consolidated financial statements, including notes and supplementary information on oil and gas exploration and production activities.

References to “LUKOIL,” “the Company,” “the Group,” “we” or “us” are references to PJSC LUKOIL and its subsidiaries and equity affiliates. All ruble amounts are in millions of Russian rubles (“RUB”), unless otherwise indicated. Income and expenses of our foreign subsidiaries were translated to rubles at rates which approximate actual rates at the date of the transaction. Tonnes of crude oil and natural gas liquids produced were translated into barrels using conversion rates characterizing the density of crude oil from each of our oilfields and the actual density of liquids produced at our gas processing plants. Hydrocarbon extraction expenses per barrel were calculated using these actual production volumes. Other operational indicators expressed in barrels were translated into barrels using an average conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent (“BOE”) were made at the rate of 1 barrel per BOE and of cubic feet – at the rate of 6 thousand cubic feet per BOE.

This report includes forward-looking statements – words such as “believes,” “anticipates,” “expects,” “estimates,” “intends,” “plans,” etc. – that reflect management’s current estimates and beliefs, but are not guarantees of future results. Please see “Forward-looking statement” on page 42 for a discussion of some factors that could cause actual results to differ materially.

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Business overview

The primary activities of LUKOIL and its subsidiaries are hydrocarbon exploration, production, refining, marketing and distribution.

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.9 billion BOE at 1 January 2019 and comprised of 12.1 billion barrels of crude oil and 23.1 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria and Mexico. Our daily hydrocarbon production in 2018 amounted to 2.3 million BOE, with liquid hydrocarbons representing approximately 77% of our overall production volumes.

LUKOIL has 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, 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 capacities 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. Our refinery throughput in 2018 amounted to 1.4 million barrels per day, and we produced 1.2 million tonnes of petrochemicals.

We market our own and third-party crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 18 countries. Most of our retail networks are located close to our refineries. Our retail sales in 2018 amounted to 15.1 million tonnes of refined products.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In 2018, our total output of electrical energy was 19.9 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

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(millions of rubles, except for figures in percent)						
Sales.....	2,043,217	2,305,886	(11.4)	8,035,889	5,936,705	35.4
EBITDA ⁽¹⁾ , including	278,315	321,810	(13.5)	1,114,800	831,570	34.1
Exploration and production segment.....	190,039	268,631	(29.3)	870,287	569,417	52.8
Refining, marketing and distribution segment ..	81,486	82,189	(0.9)	282,144	263,385	7.1
EBITDA ⁽¹⁾ net of West Qurna-2 project	274,061	312,666	(12.3)	1,089,370	814,382	33.8
Profit for the period attributable to LUKOIL shareholders	159,027	183,767	(13.5)	619,174	418,805	47.8
Capital expenditures	113,266	111,426	1.7	451,526	511,496	(11.7)
Free cash flow ⁽²⁾	212,245	159,773	32.8	555,125	246,994	124.8
Free cash flow before changes in working capital.....	138,052	199,705	(30.9)	588,717	271,977	116.5
(thousand BOE per day, except for figures in percent)						
Production of hydrocarbons, including our share in equity affiliates.....	2,391	2,362	1.2	2,347	2,269	3.4
Crude oil and natural gas liquids.....	1,821	1,817	0.2	1,806	1,804	0.1
Gas.....	570	545	4.6	541	465	16.3
Refinery throughput at the Group refineries	1,355	1,392	(2.7)	1,352	1,350	0.1

⁽¹⁾ Profit from operating activities before depreciation, depletion and amortization.

⁽²⁾ Cash flow from operating activities less capital expenditures.

In 2018, our results were positively impacted by an increase in international hydrocarbon prices and the ruble devaluation, bigger share of high-margin projects in crude oil production, as well as growth in international gas production volumes. Among the restraining factors for 2018 results were domestic refined products prices lagging the export netbacks, negative export duty lag effect as well as negative inventory effect at our refineries compared to 2017.

Compared to the third quarter of 2018, our results were negatively affected by a sharp decrease in international hydrocarbon prices, as well as negative export duty lag effect and negative inventory effect at our refineries. Key supportive factor for our results was an increase in domestic refining margins.

In 2018, the Group recognized expenses of 31.3 billion RUB in relation to the new share-based compensation plan, which were included in selling, general and administrative expenses.

As a result, our EBITDA amounted to 1,115 billion RUB in 2018, an increase of 34.1% to 2017, and to 278 billion RUB in the fourth quarter of 2018, a decrease of 13.5% to the third quarter of 2018.

In 2018, our profit was positively impacted by a foreign exchange gain (compared to a foreign exchange loss in 2017) and negatively impacted by increased depreciation, depletion and amortization due to commissioning of new production assets and production growth in the Caspian Sea and Uzbekistan. Our profit dynamics was also affected by a gain on sale of JSC “Arkhangelskgeoldobycha” in the after-tax amount of 38 billion RUB in the second quarter of 2017.

Due to significant increase in proved developed hydrocarbon reserves at some of our fields as of the end of 2018 and consequent recalculation of depletion of these upstream assets for 2018, our depreciation, depletion and amortization expenses decreased significantly in the fourth quarter of 2018.

In 2018, profit attributable to LUKOIL shareholders amounted to 619 billion RUB, an increase of 47.8% to 2017, and in the fourth quarter of 2018, it amounted to 159 billion RUB, a decrease of 13.5% to the third quarter of 2018.

Compared to 2017, our capital expenditures decreased by 60 billion RUB, or by 11.7%, mainly due to lower spending in Uzbekistan after completion of main construction works as part of the Gissar and Kandym projects. Compared to the third quarter of 2018, our capital expenditures did not change significantly.

In 2017, our free cash flow increased to 555 billion RUB, or by 124.8%, due to increase in profitability of our core operations and lower capital expenditures. Our free cash flow increased to 212 billion RUB, or by 32.8%, in the fourth quarter of 2018 mainly as a result of a changes in working capital.

The Group's average daily hydrocarbon production increased by 3.4% compared to 2017 and by 1.2% compared to the third quarter of 2018, driven primarily by growth in gas production volumes in Uzbekistan. In Russia, planned increase in production from high-margin fields continued.

Throughput at our refineries didn't change significantly compared to 2017 and decreased by 2.7% compared to the previous quarter. We continued enhancing the output structure at our refineries. Fuel oil production volumes decreased by 9.2% compared to 2017.

Changes in Group structure

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).

In February 2017, the Group completed the sale of wholly owned subsidiary – LUKOIL Chemical B.V., which owns "Karpatneftekhim" petrochemical plant located in the Ivano-Frankovsk area of Ukraine.

Main macroeconomic factors affecting our results of operations

International crude oil and refined products prices

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues.

The dynamics of our realized prices on international markets generally matches the dynamics of commonly used spot benchmarks such as Brent crude oil price, however our average prices are usually different from such benchmarks due to different delivery terms, quality mix, as well as specifics of regional markets in case of petroleum product sales.

In 2018, the price for Brent crude oil fluctuated between \$50 and \$86 per barrel, reached its maximum of \$86.2 in early October and its minimum of \$50.2 in the end of December. Average price expressed in US dollars decreased by 10.4% compared to the third quarter of 2018 and increased by 30.7% compared to 2017.

The following tables show the average crude oil and refined product prices.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(in US dollars per barrel, except for figures in percent)						
Brent crude.....	67.43	75.25	(10.4)	70.94	54.28	30.7
Urals crude (CIF Mediterranean)	67.22	74.42	(9.7)	69.89	53.37	31.0
Urals crude (CIF Rotterdam)	66.81	74.09	(9.8)	69.57	52.92	31.5
(in US dollars per metric tonne, except for figures in percent)						
Diesel fuel 10 ppm (FOB Rotterdam)	636.64	668.03	(4.7)	638.76	493.92	29.3
High-octane gasoline (FOB Rotterdam)	596.82	733.68	(18.7)	671.85	557.66	20.5
Naphtha (FOB Rotterdam).....	537.80	649.09	(17.1)	597.08	480.75	24.2
Jet fuel (FOB Rotterdam).....	671.92	707.38	(5.0)	683.19	526.17	29.8
Vacuum gas oil (FOB Rotterdam)	462.35	511.19	(9.6)	487.88	369.15	32.2
Fuel oil 3.5% (FOB Rotterdam).....	395.92	424.60	(6.8)	393.98	300.49	31.1

Source: Platts.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(in rubles per barrel, except for figures in percent)						
Brent crude.....	4,483	4,931	(9.1)	4,449	3,167	40.5
Urals crude (CIF Mediterranean)	4,469	4,877	(8.4)	4,383	3,114	40.8
Urals crude (CIF Rotterdam)	4,441	4,855	(8.5)	4,363	3,088	41.3
(in rubles per metric tonne, except for figures in percent)						
Diesel fuel 10 ppm (FOB Rotterdam)	42,325	43,777	(3.3)	40,055	28,822	39.0
High-octane gasoline (FOB Rotterdam)	39,678	48,080	(17.5)	42,130	32,541	29.5
Naphtha (FOB Rotterdam).....	35,754	42,537	(15.9)	37,441	28,053	33.5
Jet fuel (FOB Rotterdam).....	44,671	46,356	(3.6)	42,842	30,703	39.5
Vacuum gas oil (FOB Rotterdam)	30,738	33,499	(8.2)	30,594	21,541	42.0
Fuel oil 3.5% (FOB Rotterdam).....	26,321	27,825	(5.4)	24,706	17,534	40.9

Translated into rubles using average exchange rate 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 prices may deviate significantly from export netbacks and they also vary between different regions of Russia driven by supply demand balance on regional markets.

Domestic prices for refined products correlate to some extent with export netbacks, but are also materially affected by supply demand balance on regional markets.

The table below represents average domestic wholesale prices for refined products for the respective periods.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(in rubles per metric tonne, except for figures in percent)						
Diesel fuel	45,143	42,888	5.3	41,582	33,288	24.9
High-octane gasoline (Regular)	41,737	40,572	2.9	40,185	36,191	11.0
High-octane gasoline (Premium)	45,791	42,260	8.4	42,005	37,011	13.5
Fuel oil	25,162	18,439	36.5	17,747	10,507	68.9

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

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

The following table provides data on inflation in Russia and change in the ruble-dollar and the ruble-euro exchange rates.

	Q4 2018	Q3 2018	12 months of 2018	2017
Ruble inflation (CPI), %	1.7	0.4	4.2	2.5
Ruble to US dollar exchange rate				
Average for the period	66.5	65.5	62.7	58.4
At the beginning of the period	65.6	62.8	57.6	60.7
At the end of the period.....	69.5	65.6	69.5	57.6
Ruble to euro exchange rate				
Average for the period	75.9	76.2	74.0	65.9
At the beginning of the period	76.2	73.0	68.9	63.8
At the end of the period.....	79.5	76.2	79.5	68.9

Source: CBR, Federal State Statistics Service.

Taxation

The Russian Government implements the tax manoeuvre in the oil industry which involves reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates. Changes that became effective from January 2017 had a positive impact on our upstream margins and a negative impact on our refining and marketing margins, while overall impact of tax changes on our financial results wasn't significant.

In 2018, there were no material amendments to the export duty and crude oil mineral extraction tax rates formulas, however, during the year the Russian Government adopted new laws which came into effect on 1 January 2019. The laws provide for concluding the tax maneuver by 2024 through the gradual reduction of crude oil export duty rate to zero and the equivalent increase in the extraction tax rate for crude oil. To eliminate the negative effect of export duty reduction on 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 into the negative excise formula. We expect neutral impact of the above changes on our financial results subject to dynamics of domestic prices for petroleum products.

The following tables represent average enacted rates for taxes specific to the oil industry in Russia for the respective periods.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(in US dollars per tonne, except for figures in percent)						
Export duties on crude oil	141.42	134.89	4.8	128.52	86.71	48.3
Export duties on refined products						
Fuel oil	141.42	134.89	4.8	128.52	86.71	48.3
Motor gasoline	42.40	40.45	4.8	38.53	25.98	48.3
Straight-run gasoline	77.77	74.16	4.8	70.65	47.65	48.3
Diesel fuel and refined products.....	42.40	40.45	4.8	38.53	25.98	48.3
Mineral extraction tax ⁽¹⁾						
Crude oil	188.76	213.80	(11.7)	198.83	139.39	42.6
(in US dollars per thousand cubic meters, except for figures in percent)						
Natural gas (Nakhodkinskoe field).....	4.66	4.72	(1.4)	4.86	4.34	12.0
Natural gas (Pyakyakhinskoye field).....	7.96	8.50	(6.5)	8.55	8.28	3.2

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

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(in rubles per tonne, except for figures in percent)						
Export duties on crude oil ⁽¹⁾	9,402	8,840	6.4	8,059	5,060	59.3
Export duties on refined products ⁽¹⁾						
Fuel oil	9,402	8,840	6.4	8,059	5,060	59.3
Motor gasoline	2,819	2,651	6.4	2,416	1,516	59.3
Straight-run gasoline	5,170	4,860	6.4	4,430	2,781	59.3
Diesel fuel and refined products.....	2,819	2,651	6.4	2,416	1,516	59.3
Mineral extraction tax						
Crude oil	12,549	14,011	(10.4)	12,468	8,134	53.3
(in rubles per thousand cubic meters, except for figures in percent)						
Natural gas (Nakhodkinskoe field).....	310	310	—	305	253	20.4
Natural gas (Pyakyakhinskoye field).....	529	557	(5.1)	536	483	10.9

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

The table below illustrates the impact of tax incentives on taxation of crude oil production from different fields and deposits in our portfolio at \$50 per barrel Urals price.

	Mineral extraction tax	Export duty	Total	As % of oil price
(in US dollars per barrel, except for figures in percent)				
Under 2018 tax formulas				
Standard	17.7	11.5	29.2	58.4
Yaregskoye field	0.0	1.8	1.8	3.6
Yu. Korchagin field.....	7.4	0.0	7.4	14.9
V. Filanovsky field.....	7.5	0.0	7.5	15.0
Usinskoye (Permian layers)	7.4	11.5	18.9	37.9
Pyakyakhinskoye field	7.4	11.5	18.9	37.9
V. Vinogradov field	9.5	11.5	21.0	42.0
Fields with depletion above 80%	10.5–17.7	11.5	22.0–29.2	44.0–58.4
New fields with reserves below 5 million tonnes	11.3–17.7	11.5	22.8–29.2	45.6–58.4
Tyumen deposits	15.6	11.5	27.1	54.3

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate is changed monthly. Crude oil extraction tax is payable in rubles per metric tonne extracted. In 2017–2018, the tax rate was calculated according to the formula below:

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

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Fixed Factor* was equal to 306 RUB in 2017 and 357 RUB in 2018.

Starting from 2019, additional factors were added to the crude oil extraction tax formula. The first factor equals to the amount of export duty rate reduction. The other two factors are applicable when the corresponding components of the damper coefficient are positive. The fixed factor, damper factor and export duty rate reduction factor are presented in the below table:

	2019	2020	2021	2022	2023	2024 and further
Export duty rate reduction factor	0.167	0.333	0.5	0.667	0.833	0
				(rubles)		
Fixed factor.....	428	428	428	0	0	0
Damper factor for gasoline	125	105	105	105	105	105
Damper factor for diesel fuel.....	110	92	92	92	92	92

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, 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 field and Tyumen deposits;
- A fixed tax rate of 15% of the international Urals price is applied to our V. Filanovsky field, located in the Caspian offshore;
- A zero tax rate is applied to our Yaregskoye field producing extra-viscous crude oil, as well as to particular unconventional deposits.

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

The table on p. 9 illustrates the impact of crude oil extraction tax incentives on taxation of crude oil production from our different fields and deposits at \$50 per barrel Urals price.

Natural gas extraction tax rate is calculated using a special formula depending on average regulated wholesale natural gas price in Russia, the share of gas production in total hydrocarbon production at particular license 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, Nakhodkinskoye and Pyakyakhinskoe, is taxed at the rates subject to application of reducing coefficients due the fields' geographical location and the depth of reservoir.

Crude oil export duty rate is denominated in US dollars per tonne of crude oil exported and is calculated according to the table below.

International Urals price	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)

The export duty rate changes every month with the rate for the next month being 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.

The table below illustrates the impact of the “export duty lag effect” on the Urals price net of taxes.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(in US dollars per barrel, except for figures in percent)						
Urals price (Argus)	67.16	74.12	(9.4)	69.75	53.09	31.4
Export duty on crude oil	19.37	18.48	4.8	17.61	11.88	48.3
Mineral extraction tax on crude oil	25.86	29.29	(11.7)	27.24	19.09	42.7
Net Urals price ⁽¹⁾	21.93	26.35	(16.8)	24.90	22.11	12.6
Export duty lag effect	(2.73)	0.25	–	(0.19)	0.54	–
Net Urals price ⁽¹⁾ assuming no lag	24.66	26.10	(5.5)	25.09	21.57	16.3
(in rubles per barrel, except for figures in percent) ⁽²⁾						
Urals price (Argus)	4,465	4,857	(8.1)	4,374	3,098	41.2
Export duty on crude oil	1,288	1,211	6.4	1,104	693	59.3
Mineral extraction tax on crude oil	1,719	1,919	(10.4)	1,708	1,114	53.3
Net Urals price ⁽¹⁾	1,458	1,727	(15.6)	1,562	1,291	21.0
Export duty lag effect	(181)	16	–	(12)	32	–
Net Urals price ⁽¹⁾ assuming no lag	1,639	1,711	(4.2)	1,574	1,259	25.0

⁽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.

From 2019 to 2024 the export duty rate will be gradually reduced to zero by applying an adjusting factor to the standard crude oil export duty rate in accordance with the below table:

	2019	2020	2021	2022	2023	2024 and further
Adjusting factor	0.833	0.667	0.5	0.333	0.167	0

Crude oil produced at some of our fields is subject to special export duty rates calculated according to specified formulas, which are lower than 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.

The table on p. 9 illustrates the impact of crude oil export duty incentives on taxation of export of crude oil produced from our different fields and deposits at \$50 per barrel Urals price.

Export duty rates on refined products are calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

	2017 and further
Multiplier for:	
Light and middle distillates	0.30
Diesel fuel	0.30
Gasolines	0.30
Straight-run gasoline	0.55
Fuel oil	1.00

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 exports volumes and the duty is paid in rubles translated from US 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-US 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-dollar exchange rates may lead to significant adjustments. For the purposes of the IFRS consolidated financial statements, data from temporary declarations at the reporting period end is translated to rubles from US dollars using the period-end exchange rate.

Tax on additional income. Starting from 2019, a tax on additional income from the hydrocarbon production (hereinafter TAI) will be implemented for certain fields. The TAI rate is set at 50% and is applied to the estimated sales revenue less actual and estimated costs. For crude oil production subject to TAI, a special mineral extraction tax rate formula is applied.

The Company expects TAI to have significant positive impact on development plans for, and production profile of, its fields subject to TAI.

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

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

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

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

	Q4 2018	Q3 2018	Change, %	12 months of 2018	2017	Change, %
(in rubles per tonne, except for figures in percent)						
Gasoline						
Below Euro-5.....	13,100	13,100	–	13,100	13,100	–
Euro-5	8,213	8,213	–	9,454	10,130	(6.7)
Diesel fuel						
All ecological classes.....	5,665	5,665	–	6,492	6,800	(4.5)
Motor oils.....	5,400	5,400	–	5,400	5,400	–
Middle distillates.....	6,665	6,665	–	7,491	7,800	(4.0)
Straight-run gasoline.....	13,100	13,100	–	13,100	13,100	–

From June to December 2018, excise rates on refined products were temporarily reduced by 3,000 rubles per tonne of motor gasoline (Euro-5) and by 2,000 rubles per tonne of diesel fuel (all ecological classes).

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
(in rubles per tonne)					
Gasoline					
Below Euro-5.....	13,100	13,100	13,100	13,100	13,624
Euro-5	11,213	8,213	12,314	12,752	13,262
Diesel fuel					
All ecological classes.....	7,665	5,665	8,541	8,835	9,188
Motor oils.....	5,400	5,400	5,400	5,616	5,841
Middle distillates.....	8,662	6,665	9,241	9,535	9,916
Straight-run gasoline.....	13,100	13,100	13,912	14,720	15,533

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 Company and its Russian subsidiaries file income tax returns in Russia. 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.

The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they 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 transported via railway infrastructure of the state-owned company, Russian Railways.

Refined products produced at our Russian refineries are transported primarily by railway (Russian Railways) and the pipeline system of Transnefteproduct, a subsidiary of Transneft.

Gas that is not sold at the wellhead is transported through the Unified Gas Supply System owned and operated by Gazprom.

Transneft, Russian Railways and Gazprom are state-controlled natural transportation infrastructure monopolies and their tariffs are regulated by the Federal Antimonopoly Service of Russia and set in rubles.

The following table sets forth the changes in the average tariffs charged by the state-controlled transportation service providers in Russia.

	4th quarter of 2018 to 3rd quarter of 2018	12 months of 2018 to 12 months of 2017
Transneft		
Crude oil	0.0%	4.0%
Russian Railways		
Crude oil and refined products	0.0%	5.3%

Since 1 January 2019, the tariffs for transportation of crude oil and refined products were changed. Tariffs for crude oil export through the trunk oil pipeline system increased by 3.87%. Tariffs for refined products transportation via railway infrastructure increased by 3.56%, while tariffs for transportation of refined products by pipeline changed in a range from 3.61% to 3.83% for the Groups' refineries.

Reserves base

The tables below summarize the net proved reserves of consolidated subsidiaries and our share in equity affiliates under the standards of the US Securities and Exchange Commission (until the economic limit of commercial production is reached) that have been derived from our reserve reports audited by Miller and Lents Ltd, our independent reservoir engineers, at 31 December 2018 and 2017.

(hydrocarbons, millions of BOE)	31 December 2018	Changes in 2018			31 December 2017
		Production ⁽¹⁾	Extensions, discoveries and changes in structure	Revision of previous estimates	
Western Siberia.....	8,304	(360)	265	15	8,384
Timan-Pechora.....	2,424	(129)	128	115	2,311
Ural region.....	2,261	(126)	80	111	2,196
Volga region.....	1,156	(96)	81	83	1,088
Other in Russia.....	185	(11)	6	10	179
Outside Russia.....	1,601	(134)	20	(145)	1,860
Proved oil and gas reserves	15,931	(856)	580	189	16,018
Probable oil and gas reserves ...	6,424				6,409
Possible oil and gas reserves.....	3,242				3,087

⁽¹⁾ Gas production shown before own consumption.

(crude oil, millions of barrels)	31 December 2018	Changes in 2018			31 December 2017
		Production	Extensions, discoveries and changes in structure	Revision of previous estimates	
Western Siberia.....	6,184	(283)	236	(24)	6,255
Timan-Pechora.....	2,291	(117)	116	109	2,183
Ural region.....	2,122	(120)	77	103	2,062
Volga region.....	797	(86)	74	77	732
Other in Russia.....	183	(11)	6	10	178
Outside Russia.....	505	(42)	14	(134)	667
Proved oil reserves	12,082	(659)	523	141	12,077
Probable oil reserves.....	4,855				4,835
Possible oil reserves.....	2,727				2,581

(gas, billions of cubic feet)	31 December 2018	Changes in 2018			31 December 2017
		Production ⁽¹⁾	Extensions, discoveries and changes in structure	Revision of previous estimates	
Western Siberia.....	12,723	(460)	168	235	12,780
Timan-Pechora.....	797	(74)	77	33	761
Ural region.....	832	(33)	14	49	802
Volga region.....	2,153	(62)	43	38	2,134
Other in Russia.....	14	(2)	–	2	14
Outside Russia.....	6,574	(554)	36	(66)	7,158
Proved gas reserves.....	23,093	(1,185)	338	291	23,649
Probable gas reserves.....	9,414				9,446
Possible gas reserves.....	3,091				3,038

⁽¹⁾ Gas production shown before own consumption.

The Company's proved hydrocarbon reserves at 31 December 2018 amounted to 15.9 billion BOE and comprised of 12.1 billion barrels of crude oil and 23.1 trillion cubic feet of gas.

As a result of geological exploration and production drilling conducted in 2018, LUKOIL added 576 million barrels of oil equivalent to proven reserves. The major addition was provided by production drilling in West Siberia and Timan-Pechora.

Higher average oil price, optimization of development systems and programs of geological and engineering operations at existing fields, conversion of contingent resources to reserves as a result of adoption of the final investment decision on the Rakushechnoye field in the Caspian Sea as well as introducing the tax on additional income for a number of fields, resulted in a positive revision of the proven reserves in the aggregate of 297 million BOE. The reserves dynamics were negatively affected by reserves reassessment for the international projects based on PSAs and service contracts, as a result of average hydrocarbon prices growth and changes in the West Qurna-2 project development program.

The following table summarizes our hydrocarbon production by major regions.

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(thousand BOE per day)			
Crude oil and natural gas liquids				
Consolidated subsidiaries				
West Siberia	774	780	774	801
Timan-Pechora	323	318	318	312
Ural region	333	326	328	324
Volga region.....	242	235	229	199
Other in Russia.....	31	31	32	33
Total in Russia.....	1,703	1,690	1,681	1,669
Iraq ⁽¹⁾	20	35	28	34
Other outside Russia.....	49	45	47	45
Total outside Russia.....	69	80	75	79
Total consolidated subsidiaries	1,772	1,770	1,756	1,748
Our share in equity affiliates				
in Russia	13	13	13	19
outside Russia.....	36	34	37	37
Total share in equity affiliates.....	49	47	50	56
Total crude oil and natural gas liquids	1,821	1,817	1,806	1,804
Natural and petroleum gas⁽²⁾				
Consolidated subsidiaries				
West Siberia	203	206	210	217
Timan-Pechora	34	33	33	35
Ural region	15	16	15	16
Volga region.....	28	27	27	23
Other in Russia.....	–	1	1	1
Total in Russia.....	280	283	286	292
Total outside Russia.....	278	251	243	159
Total consolidated subsidiaries	558	534	529	451
Share in equity affiliates				
in Russia	2	2	2	2
outside Russia.....	10	9	10	12
Total share in production of equity affiliates.....	12	11	12	14
Total natural and petroleum gas.....	570	545	541	465
Total daily hydrocarbon production	2,391	2,362	2,347	2,269
Including natural gas liquids produced at the gas processing plants.....				
	44	36	42	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.

	Q4 2018	Q3 2018	12 months of 2018	
	(thousands of tonnes)			
West Siberia.....	9,446	9,552	37,471	38,779
Timan-Pechora.....	4,119	4,063	16,124	15,837
Ural region.....	3,892	3,862	15,251	15,139
Volga region.....	2,903	2,829	10,969	9,554
Other in Russia.....	403	400	1,597	1,686
Crude oil produced in Russia.....	20,763	20,706	81,412	80,995
Iraq ⁽¹⁾	276	469	1,514	1,822
Other outside Russia.....	497	457	1,901	2,003
Crude oil produced outside Russia.....	773	926	3,415	3,825
Total crude oil produced by consolidated subsidiaries.....	21,536	21,632	84,827	84,820
Our share in crude oil produced by equity affiliates:				
in Russia.....	159	159	633	884
outside Russia.....	413	395	1,664	1,710
Total crude oil produced.....	22,108	22,186	87,124	87,414

⁽¹⁾ Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 43.9% and 44.2% of our crude oil in the fourth quarter and the twelve months of 2018, respectively (44.2% in the third quarter of 2018, 45.7% in 2017).

The dynamics of our crude oil production volumes was mainly driven by a temporary external limitation due to an agreement of OPEC and some of the non-OPEC countries, including Russia, to cut production from October 2016 levels in order to stabilize the global crude oil market (OPEC+ agreement). Since 2017, the Group limited production in our traditional regions (West Siberia, Timan-Pechora, Ural) by closing least-productive wells, wells with high water cut and high lifting costs. We also decreased a number of workover operations.

In June 2018, the OPEC+ countries agreed to increase the crude oil production volumes from July 2018 that resulted in an increase in our domestic crude oil production in the second half of 2018. In December 2018, the OPEC+ countries agreed to decrease crude oil production since January till June 2019 from October 2018 levels.

We continued increasing production at the V. Filanovsky (Caspian sea), Pyakyakhinskoye and other high-margin fields, which have a major positive impact on our financial results due to high quality reserve base and tax incentives.

In 2018, four production wells were launched at the second development stage of the V. Filanovsky field, which enabled to increase daily production to project levels. As a result in 2018, we produced 6,074 thousand tonnes of crude oil at this field, an increase of 32.5%, compared to 2017.

At Yu. Korchagin field three new production wells and two sidetracks were launched at the first and second development stages. As a result in the fourth quarter of 2018, oil production at Yu. Korchagin field increased by 23% compared to the first quarter of 2018.

We also produced 1,599 thousand tonnes of liquids at the Pyakyakhinskoye field, an increase of 4% to 2017.

The development of the Yaregskoye field and the Permian layers of our Usinskoye field in Timan-Pechora led to an increase in the high viscosity crude oil production to 4.3 million tonnes, or by 25%, compared to 2017.

Gas production (excluding flaring, reinjected gas and gas used in production of natural gas liquids) by major regions is presented in the table below.

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(millions of cubic meters)			
West Siberia.....	3,180	3,221	13,001	13,479
Timan-Pechora.....	530	519	2,072	2,166
Ural region.....	232	250	923	978
Volga region.....	436	427	1,690	1,425
Other in Russia.....	7	6	26	32
Gas produced in Russia	4,385	4,423	17,712	18,080
Uzbekistan.....	3,855	3,516	13,423	8,055
Other outside Russia.....	486	403	1,673	1,830
Gas produced outside Russia	4,341	3,919	15,096	9,885
Total gas produced by consolidated subsidiaries	8,726	8,342	32,808	27,965
Our share in gas produced by equity affiliates:				
in Russia.....	20	24	92	96
outside Russia.....	159	146	643	800
Total gas produced	8,905	8,512	33,543	28,861

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where the major part of gas is produced from the Nakhodkinskoe field, which has been developed since 2005. In January 2017, we started gas production from our second field in Bolshekhetskaya depression, the Pyakyakhinskoye field. Gas production from Pyakyakhinskoye field amounted to 3,863 million cubic meters, an increase of 38.5% to 2017. Our international gas production (including our share in affiliates' production) increased by 47.3%, compared to 2017, as a result of commissioning of new gas treatment facilities at Gissar and Kandym projects in Uzbekistan.

West Qurna-2 project

The West Qurna-2 field in Iraq is developed under the service contract, signed in January 2010. In May 2018, a Group company and Iraqi party signed a new field development plan, according to which, crude oil production is planned to increase to 800 thousand barrels per day by 2025.

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

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

There are two steps of revenue recognition:

- The Iraqi party, on a quarterly basis, approves invoice for cost recovery and remuneration fee for which the Group is eligible for in the reporting period. Amount of the invoice depends on crude oil production volumes during the period and amount of costs claimed for reimbursement. Approved invoice amount for the reporting quarter is recognized in crude oil sales revenue.
- Based on the approved invoices, the Iraqi party arranges schedule of crude oil shipments against its liability for cost compensation and remuneration. As this crude oil is actually shipped, its cost is recognized at current market price in Cost of purchased crude oil, gas and products. Further, revenue from sales of this crude oil, or products from its refining, is recognized in *Sales*. Unsold crude oil and refined products are recognized in *Inventories*.

The following table summarizes data on capital and operating costs incurred, compensation crude oil received, costs yet unrecovered and remuneration fee.

	Costs incurred⁽¹⁾	Remuneration fee (millions of US dollars)	Crude oil received	Crude oil to be received
Cumulative at 31 December 2017	8,072	303	7,842	533
Change in 2018	525	121	839	(193)
Cumulative at 31 December 2018	8,597	424	8,681	340

⁽¹⁾ Including prepayments.

The West Qurna-2 project summary is presented below:

	Q4 2018		Q3 2018	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production.....	36,146	5,285	35,614	5,207
Production related to cost compensation and remuneration	1,886	276	3,206	469
Shipment of compensation crude oil ⁽¹⁾	3,011	440	2,953	432
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	6,549	98	9,538	146
Remuneration fee	2,111	32	4,108	63
	8,660	130	13,646	209
Cost of compensation crude oil, received as liability settlement (included in <i>Cost of purchased crude oil, gas and products</i>) ⁽¹⁾	10,602	159	14,180	217
Extraction expenses	5,009	76	4,743	72
Depreciation, depletion and amortization.....	1,581	24	4,826	73
EBITDA.....	4,254	64	9,144	139

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

	12 months of			
	2018		2017	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production.....	139,430	20,385	142,224	20,793
Production related to cost compensation and remuneration	10,355	1,514	12,466	1,822
Shipment of compensation crude oil ⁽¹⁾	12,851	1,879	11,854	1,733
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	32,665	523	32,322	554
Remuneration fee	9,685	153	5,307	91
	42,350	676	37,629	645
Cost of compensation crude oil, received as liability settlement (included in <i>Cost of purchased crude oil, gas and products</i>) ⁽¹⁾	52,817	839	33,191	567
Extraction expenses	17,588	280	16,178	278
Depreciation, depletion and amortization.....	15,218	246	16,454	282
EBITDA.....	25,430	406	17,188	294

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

In February-June 2017, due to a so-called performance factor that represents a ratio of actual production volumes to target production volumes according to the provisions of the service contract, our per barrel remuneration fee was approximately three times lower. The parties agreed not to apply the performance factor from the third quarter of 2017. In the third quarter of 2018, the Iraqi party reimbursed to the Group the remuneration unpaid due to implementation of the performance factor in February-June 2017 in the amount of \$32 million.

Refining, marketing and distribution

The following table summarizes key figures on our Refining, marketing and distribution segment:

	Q4 2018	Q3 2018	12 months of 2018 2017	
			(millions of rubles)	
EBITDA	81,486	82,189	282,144	263,385
- in Russia	77,519	59,318	231,831	195,479
- outside Russia	3,967	22,871	50,313	67,906
Refining expenses at the Group refineries	28,996	28,318	104,987	86,508
- in Russia	12,783	12,821	45,659	40,970
- outside Russia	16,213	15,497	59,328	45,538
			(ruble per tonne)	
Refining expenses at the Group refineries	1,705	1,621	1,560	1,287
- in Russia	1,170	1,172	1,057	950
- outside Russia	2,669	2,374	2,459	1,887
			(US dollar per tonne)	
Refining expenses at the Group refineries	25.65	24.74	24.82	22.04
- in Russia	17.60	17.89	16.80	16.28
- outside Russia	40.14	36.23	39.17	32.33

Our refining, marketing and distribution EBITDA was 0.9% lower than in the third quarter of 2018, and 7.1% higher than in 2017.

Compared to the third quarter of 2018, our refining, marketing and distribution EBITDA in Russia increased driven mainly by higher refining margins and seasonally higher results of our power generation and distribution subsidiaries. This was partially offset by negative inventory effect at our refineries and lower profitability of our petrochemical plants due to scheduled maintenance. Outside Russia, strong negative inventory effect at our European refineries, decrease in refining margins and seasonally lower results of retail network were partially offset by better trading results and the effect of the ruble devaluation.

Compared to 2017, our refining, marketing and distribution EBITDA in Russia increased as a result of higher refining margins and decrease in excise tax rates in the second half of 2018. The growth was constrained by the lagging of domestic prices compared to export netbacks. Outside Russia, the year-on-year decrease in refining, marketing and distribution EBITDA was a result of negative inventory effect at our refineries, lower refining margins, and increase in operating expenses primarily due to higher cost of fuel. Among positive factors were better retail results and the effect of ruble devaluation.

Refining and petrochemicals

The following table summarizes key figures for our refining and petrochemical volumes.

	Q4	Q3	12 months of	
	2018	2018	2018	2017
	(thousands of tonnes)			
Refinery throughput at the Group refineries	17,002	17,467	67,316	67,240
- in Russia	10,927	10,939	43,189	43,107
- outside Russia, including	6,075	6,528	24,127	24,133
- crude oil	5,544	5,837	21,270	21,970
- refined products	531	691	2,857	2,163
Refinery throughput at third party refineries	1,634	1,622	6,547	6,547
Total refinery throughput	18,636	19,089	73,863	73,787
Production of the Group refineries in Russia⁽¹⁾	10,439	10,435	40,985	40,746
- diesel fuel	4,146	3,952	16,215	15,757
- motor gasoline	1,895	2,075	8,022	8,143
- fuel oil	1,226	1,218	4,814	5,312
- jet fuel	684	722	2,760	2,744
- lubricants and components	269	223	961	1,163
- straight-run gasoline	598	418	2,143	2,192
- vacuum gas oil	270	377	844	586
- bitumen	158	273	793	888
- coke	285	245	1,106	982
- other products	908	932	3,327	2,979
Production of the Group refineries outside Russia	5,850	6,155	22,789	22,745
- diesel fuel	2,578	2,678	9,619	9,871
- motor gasoline	1,176	1,316	4,545	5,140
- fuel oil	635	626	2,710	2,973
- jet fuel	260	317	1,191	1,049
- straight-run gasoline	490	592	2,073	1,897
- coke	53	49	206	190
- other products	658	577	2,445	1,625
Refined products produced by the Group	16,289	16,590	63,774	63,491
Refined products produced at third party refineries	1,593	1,581	6,414	6,417
Total refined products produced	17,882	18,171	70,188	69,908
Reference: Net of cross-supplies of refined products between the Group refineries	322	311	1,589	1,702
Products produced at petrochemical plants and facilities	258	351	1,246	1,171
- in Russia	205	254	934	798
- outside Russia	53	97	312	373

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

Compared to the third quarter of 2018, the total volume of refined products produced by the Group decreased by 1.8%. Production at our refineries domestically didn't change, while production at our refineries outside Russia decreased by 5.0%, mainly due to the maintenance works at our refinery in Italy in the fourth quarter of 2018.

Compared to 2017, production at our refineries domestically and outside Russia didn't change significantly. We continued enhancing the output structure. Fuel oil production volumes decreased by 0.8 million tonnes, or by 9.2%, year-on-year.

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 valid through 2019 with a Canadian refinery. In the fourth quarter and the twelve months of 2018, attributable refined products output amounted to 1.5 million tonnes and 6.2 million tonnes, respectively (1.5 million tonnes in the third quarter of 2018 and 6.2 million tonnes in 2017).

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 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. We use traditional physical volumes hedging techniques to hedge our trading operations to secure trading margin.

The following table shows the volumes of crude oil purchases by the Group during the periods considered.

	Q4 2018	Q3 2018	12 months of 2018	2017
	(thousands of tonnes)			
Crude oil purchases				
in Russia	239	231	874	962
for trading internationally	11,287	12,758	46,345	36,137
for refining internationally	5,745	6,091	22,527	22,527
Shipment of the West Qurna-2 compensation crude oil.....	440	432	1,879	1,733
Total crude oil purchased.....	17,711	19,512	71,625	61,359

The table below summarizes figures for our refined products and petrochemicals marketing and trading activities.

	Q4 2018	Q3 2018	12 months of 2018	2017
	(thousands of tonnes)			
Refined products retail sales	3,905	4,068	15,144	14,238
Refined products wholesale sales	26,808	27,916	108,397	114,283
Total refined products sales	30,713	31,984	123,541	128,521
Refined products purchased in Russia	344	318	1,242	1,645
Refined products purchased internationally	13,493	13,685	54,728	58,367
Total refined products purchased	13,837	14,003	55,970	60,012
Petrochemical products purchased in Russia	10	8	34	38
Petrochemical products purchased internationally.....	195	109	583	507
Total petrochemical products purchased.....	205	117	617	545

Exports of crude oil, refined and petrochemical products from Russia by our subsidiaries and export revenues (both to the Group companies and third parties) are summarized as follows:

	Q4 2018	Q3 2018	12 months of 2018	2017
	(thousands of tonnes)			
Exports of crude oil to Customs Union	701	674	2,745	2,807
Exports of crude oil beyond Customs Union	8,750	8,919	33,956	33,779
Total crude oil exports.....	9,451	9,593	36,701	36,586
Exports of crude oil through Transneft and other third party infrastructure including:	7,176	7,287	27,946	27,329
- ESPO pipeline	340	300	1,240	1,140
- CPC pipeline	1,344	1,240	4,783	3,467
Exports of crude oil through the Group's transportation infrastructure.....	2,275	2,306	8,755	9,257
Total crude oil exports.....	9,451	9,593	36,701	36,586
	(millions of rubles)			
Exports of crude oil to Customs Union.....	15,865	17,437	64,015	48,017
Exports of crude oil beyond Customs Union	260,230	305,638	1,040,747	730,049
Total crude oil exports.....	276,095	323,075	1,104,762	778,066

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(thousands of tonnes)			
Refined products exports				
- diesel fuel	2,192	2,382	9,773	10,060
- gasoline	6	3	232	331
- fuel oil	446	255	1,517	2,762
- jet fuel	3	10	49	84
- lubricants and components	142	153	600	623
- gas refinery products	448	256	1,249	1,304
- other products	917	728	2,824	2,360
Total refined products exports	4,154	3,787	16,244	17,524
Total petrochemical products exports	82	84	338	291
	(millions of rubles)			
Total refined products and petrochemicals exports	153,856	155,686	594,868	464,141

The volume of our crude oil exports from Russia decreased by 1.5% compared to the third quarter of 2018, and didn't change compared to 2017. In the fourth quarter and the twelve months of 2018, we exported 45.5% and 45.1% of our domestic crude oil production (46.3% in the third quarter of 2018 and 45.2% in 2017) and 43 thousand tonnes and 185 thousand tonnes of crude oil purchased from our affiliates and third parties (51 thousand tonnes in the third quarter of 2018 and 366 thousand tonnes in 2017), respectively.

The volume of our refined products exports increased by 9.7% compared to the third quarter of 2018 and decreased by 7.3% compared to 2017 driven by domestic demand for our products.

Substantially, we use the Transneft infrastructure to export our crude oil. 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 thus enables us to achieve higher netbacks. All the volume of crude oil exported that bypassed Transneft was routed beyond the Customs Union.

Besides our own infrastructure, we also export the light crude oil through the Caspian Pipeline Consortium and Eastern Siberia – Pacific Ocean pipelines that allows us to preserve the premium quality of crude oil and to achieve higher netbacks compared to traditional export routes.

Priority sales channels. We develop our priority sales channels aiming at increasing our margin on sale of refined products produced by the Group.

In the fourth quarter and the twelve months of 2018, we sold 2.8 million tonnes and 10.9 million tonnes of motor fuels via our domestic retail network, respectively, which was 4.3% less compared to the third quarter of 2018 due to seasonality factor and 8.4% more compared to 2017. Outside Russia, retail sales decreased by 3.3% compared to the third quarter of 2018 due to seasonality factor, and increased by 1.5% compared to 2017.

We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia.

Power generation. We established a vertically integrated chain from generation to transportation and sale of power and heat for third party customers (commercial generation) and 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 2018, our total output of commercial electrical energy was 19.9 billion kWh (20.1 billion kWh in 2017), and our total output of commercial heat energy was approximately 11.0 million Gcal (10.7 million Gcal in 2017).

Financial results

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

	Q4 2018	Q3 2018	12 months of 2018 (millions of rubles)	
Revenues				
Sales (including excise and export tariffs)	2,043,217	2,305,886	8,035,889	5,936,705
Costs and other deductions				
Operating expenses	(119,769)	(123,837)	(464,467)	(456,765)
Cost of purchased crude oil, gas and products	(1,131,428)	(1,323,504)	(4,534,244)	(3,129,864)
Transportation expenses.....	(65,267)	(70,624)	(270,153)	(272,792)
Selling, general and administrative expenses.....	(50,504)	(64,766)	(192,433)	(165,331)
Depreciation, depletion and amortization	(51,902)	(105,900)	(343,085)	(325,054)
Taxes other than income taxes	(250,207)	(248,539)	(899,383)	(606,510)
Excise and export tariffs	(146,469)	(151,765)	(556,827)	(461,525)
Exploration expenses	(1,258)	(1,041)	(3,582)	(12,348)
Profit from operating activities.....	226,413	215,910	771,715	506,516
Finance income.....	6,236	5,132	19,530	15,151
Finance costs.....	(12,742)	(9,955)	(38,298)	(27,331)
Equity share in income of affiliates.....	7,062	6,828	25,243	16,864
Foreign exchange gain (loss)	1,586	11,215	33,763	(19,948)
Other (expenses) income.....	(28,291)	(780)	(38,934)	32,932
Profit before income taxes.....	200,264	228,350	773,019	524,184
Current income taxes	(32,809)	(46,064)	(137,062)	(99,976)
Deferred income taxes	(8,235)	2,176	(14,855)	(3,786)
Total income tax expense.....	(41,044)	(43,888)	(151,917)	(103,762)
Profit for the period.....	159,220	184,462	621,102	420,422
Profit for the period attributable to non-controlling interests.....	(193)	(695)	(1,928)	(1,617)
Profit for the period attributable to PJSC LUKOIL shareholders	159,027	183,767	619,174	418,805
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):				
Basic.....	226.03	259.02	874.47	589.14
Diluted.....	221.70	255.54	865.19	589.14

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

Sales revenues

Sales breakdown	Q4	Q3	12 months of	
	2018	2018	2018	2017
(millions of rubles)				
Crude oil				
Export and sales on international markets other than Customs Union	633,414	769,427	2,559,578	1,556,811
Export and sales to Customs Union	16,006	17,233	64,228	46,798
Domestic sales	8,841	14,423	47,508	37,525
	658,261	801,083	2,671,314	1,641,134
Cost compensation and remuneration at the West Qurna-2 project	8,660	13,646	42,350	37,629
	666,921	814,729	2,713,664	1,678,763
Refined products ⁽¹⁾				
Export and sales on international markets				
Wholesale	915,651	1,015,461	3,612,291	2,863,379
Retail	93,437	97,256	349,493	280,847
Domestic sales				
Wholesale	118,416	124,784	439,327	360,182
Retail	134,109	139,765	498,765	415,820
	1,261,613	1,377,266	4,899,876	3,920,228
Petrochemicals				
Export and sales on international markets	21,329	15,731	67,682	48,187
Domestic sales	12,092	12,224	46,085	34,451
	33,421	27,955	113,767	82,638
Gas				
Sales on international markets	30,477	36,267	112,990	54,611
Domestic sales	8,480	8,122	33,352	31,109
	38,957	44,389	146,342	85,720
Sales of energy and related services				
Sales on international markets	3,822	5,743	15,600	12,884
Domestic sales	15,618	10,432	54,353	61,028
	19,440	16,175	69,953	73,912
Other				
Export and sales on international markets	11,248	13,125	46,160	49,717
Domestic sales	11,617	12,247	46,127	45,727
	22,865	25,372	92,287	95,444
Total sales	2,043,217	2,305,886	8,035,889	5,936,705

⁽¹⁾ Including revenue from gas refined products sales.

Sales volumes	Q4	Q3	12 months of	
	2018	2018	2018	2017
	(thousands of tonnes)			
Crude oil				
Export and sales on international markets other than Customs Union	19,288	21,651	78,914	67,935
Export and sales to Customs Union	692	680	2,754	2,741
Domestic sales	354	551	2,061	2,294
	20,334	22,882	83,729	72,970
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project	276	469	1,514	1,822
	20,610	23,351	85,243	74,792
Refined products ⁽¹⁾				
Export and sales on international markets				
Wholesale	23,123	23,937	93,676	99,544
Retail	1,077	1,114	4,217	4,155
Domestic sales				
Wholesale	3,685	3,979	14,721	14,739
Retail	2,828	2,954	10,927	10,083
	30,713	31,984	123,541	128,521
Petrochemicals				
Export and sales on international markets	292	217	1,004	949
Domestic sales	174	192	754	699
	466	409	1,758	1,648
	(millions of cubic meters)			
Gas				
Sales on international markets	4,052	3,674	14,173	9,086
Domestic sales	3,387	3,344	13,723	13,751
	7,439	7,018	27,896	22,837

⁽¹⁾ Including volumes of gas refined products sales.

Realized average sales prices

		Q4	Q3	12 months of	
		2018	2018	2018	2017
Average realized price on international markets					
Crude oil (beyond Customs Union) ⁽¹⁾	(RUB/barrel)	4,480	4,848	4,425	3,126
Crude oil (Customs Union)	(RUB/barrel)	3,156	3,458	3,182	2,329
Refined products					
Wholesale	(RUB/tonne)	39,599	42,422	38,562	28,765
Retail	(RUB/tonne)	86,757	87,303	82,877	67,593
Petrochemicals	(RUB/tonne)	73,045	72,493	67,412	50,777
Gas (excluding royalty)	(RUB/1,000 m ³)	7,521	9,871	7,972	6,010
Crude oil (beyond Customs Union) ⁽¹⁾	(\$/barrel)	67.39	73.98	70.56	53.58
Crude oil (Customs Union)	(\$/barrel)	47.46	52.77	50.74	39.92
Refined products					
Wholesale	(\$/tonne)	596	647	615	493
Retail	(\$/tonne)	1,305	1,332	1,322	1,158
Petrochemicals	(\$/tonne)	1,099	1,106	1,075	870
Gas (excluding royalty)	(\$/1,000 m ³)	113	151	127	103
Average realized price within Russia					
Crude oil	(RUB/barrel)	3,407	3,571	3,145	2,232
Refined products					
Wholesale	(RUB/tonne)	32,135	31,361	29,844	24,437
Retail	(RUB/tonne)	47,422	47,314	45,645	41,240
Petrochemicals	(RUB/tonne)	69,494	63,667	61,121	49,286
Gas ⁽²⁾	(RUB/1,000 m ³)	2,504	2,429	2,430	2,262

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

⁽²⁾ As most of our gas production in Russia is sold ex-field, the price does not include cost of transportation by Unified Gas Supply System of Gazprom.

In the fourth quarter of 2018, our revenues decreased by 263 billion RUB, or by 11.4%, compared to the third quarter of 2018. Our revenues from crude oil sales decreased by 148 billion RUB, or by 18.1%, our revenues from sales of refined products decreased by 116 billion RUB, or by 8.4%, and our revenues from gas sales decreased by 5 billion RUB, or by 12.2%. This was mainly driven by a decrease in hydrocarbon prices, as well as crude oil trading volumes, and partially offset by the effect of the ruble devaluation on our revenues denominated in the US dollars and euro.

Compared to 2017, our revenues increased by 2,099 billion RUB, or by 35.4%. Our revenues from crude oil sales increased by 1,035 billion RUB, or by 61.6%, our revenues from sales of refined products increased by 980 billion RUB, or by 25%, and our gas sales increased by 61 billion RUB, or by 70.7%, largely, as a result of an increase in hydrocarbon prices, gas production volumes, crude oil trading volumes and the effect of the ruble devaluation on our revenues denominated in the US dollars and euro.

Sales of crude oil

Compared to the third quarter of 2018, our international crude oil sales revenue decreased by 17.7%, or by 136 billion RUB. Our international sales volumes (beyond the Customs Union) decreased by 2,363 thousand tonnes, or by 10.9%, and our average international ruble realized prices decreased by 7.6%. In the fourth quarter of 2018, our sales volumes in Russia decreased by 197 thousand tonnes, or by 35.8%, and our realized domestic crude oil sales price decreased by 4.6%. As a consequence, our domestic sales revenue decreased by 38.7%, or by 6 billion RUB.

Compared to 2017, our international crude oil sales revenue increased by 64.4%, or by 1,003 billion RUB. In 2018, our international sales volumes (beyond the Customs Union) increased by 10,979 thousand tonnes, or by 16.2%, as a result of an increase in trading volumes. Our average international ruble realized prices increased by 41.5%. At the same time, our domestic sales volumes decreased by 233 thousand tonnes, or by 10.2%, while our realized sales price increased by 40.9%. As a consequence, in 2018, our domestic sales revenue increased by 26.6%, or by 10 billion RUB.

Sales of refined products

Compared to the third quarter of 2018, our revenue from the wholesale of refined products outside Russia decreased by 100 billion RUB, or by 9.8%, as a result of a decrease in our realized ruble prices by 6.7% and sales volumes by 3.4% due to a decrease in production volumes and trading operations.

In the fourth quarter of 2018, our international retail revenue decreased by 4 billion RUB, or by 3.9%. Our sales volumes decreased by 37 thousand tonnes, or by 3.3%, due to a seasonality factor, while our international retail realized ruble prices didn't change.

Compared to the third quarter of 2018, our revenue from the wholesale of refined products on the domestic market decreased by 6 billion RUB, or by 5.1%, as a result of a decrease in sales volumes by 7.4%, while our realized ruble prices increased by 2.5%.

In the fourth quarter of 2018, our revenue from refined products retail sales in Russia decreased by 6 billion RUB, or by 4.0%, compared to the third quarter of 2018. Our sales volumes decreased by 4.3% due to a seasonality factor, while our average domestic retail prices didn't change.

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

Compared to 2017, our dollar and ruble realized retail prices outside Russia increased by 14.1% and by 22.6%, respectively. Our sales volumes increased by 1.5%. As a result, our international retail revenue increased by 69 billion RUB, or by 24.4%.

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

Our revenue from refined products retail sales in Russia increased by 83 billion RUB, or by 19.9%, compared to 2017. Our average domestic retail prices and volumes increased by 10.7% and by 8.4%, respectively. An increase in retail sales volumes was a result of higher domestic demand.

Sales of petrochemical products

Compared to the third quarter of 2018 and the twelve months of 2017, our revenue from sales of petrochemical products increased by 5 billion RUB, or by 19.6%, and by 31 billion RUB, or by 37.7%, respectively, largely as a result of growth in realized prices and increase in trading volumes outside Russia.

Sales of gas

Sales of gas decreased by 5 billion RUB, or by 12.2%, compared to the third quarter of 2018, as a result of one-off adjustments related to the Group's PSA projects in Uzbekistan.

Our sales of gas increased by 61 billion RUB, or by 70.7%, compared to 2017. This increase mostly related to our operations outside Russia and was a result of production growth within Gissar and Kandym projects in Uzbekistan. Higher gas prices also contributed to the increase in our gas sales revenue.

Sales of energy and related services

Compared to the third quarter of 2018, our revenue from sales of energy and related services increased by 3 billion RUB, or by 20.2%, due to a seasonality factor in our domestic sales. Outside Russia, decrease in sales of energy was due to high demand in Italy in the third quarter of 2018.

Compared to 2017, our revenue from sales of energy and related services decreased by 4 billion RUB, or by 5.4%, mainly due to a sale of 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.

In the fourth quarter of 2018, revenue from other sales decreased by 3 billion RUB, or by 9.9%, compared to the third quarter of 2018, largely as a result of a seasonal decrease in non-petrol revenue of our retail network and decrease in revenue of transportation services.

Compared to 2017, revenue from other sales decreased by 3 billion RUB, or by 3.3%, largely due to the sale of our diamond business in June 2017 that was partially compensated by the effect of the ruble devaluation.

Operating expenses

Operating expenses include the following:

	Q4 2018	Q3 2018	12 months of 2018 2017	
			(millions of rubles)	
Hydrocarbon extraction expenses ⁽¹⁾	51,355	48,947	196,227	192,781
Extraction expenses at the West Qurna-2 field	5,009	4,743	17,588	16,178
Own refining expenses	28,996	28,318	104,987	86,508
Refining expenses at third-party refineries	(722)	4,712	8,020	15,403
Expenses for crude oil transportation to refineries	12,375	13,324	50,264	48,754
Power generation and distribution expenses	8,721	6,826	30,045	32,123
Petrochemical expenses	3,442	2,987	12,075	12,081
Other operating expenses	10,593	13,980	45,261	52,937
Total operating expenses	119,769	123,837	464,467	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 31 "Segment information" to our consolidated financial statements. 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.

Our operating expenses decreased by 4 billion RUB, or by 3.3%, compared to the third quarter of 2018 and increased by 8 billion RUB, or by 1.7%, compared to 2017.

Hydrocarbon extraction expenses

Our extraction expenses include expenditures related to repairs of extraction equipment, labor 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.

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(millions of rubles)			
Hydrocarbon extraction expenses ⁽¹⁾	51,355	48,947	196,227	192,781
- in Russia	44,949	43,608	175,131	177,554
- outside Russia ⁽¹⁾	6,406	5,339	21,096	15,227
	(ruble per BOE)			
Hydrocarbon extraction expenses ⁽¹⁾	242	234	238	244
- in Russia	246	240	244	248
- outside Russia ⁽¹⁾	214	196	199	204

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

Compared to the third quarter of 2018, our extraction expenses increased by 2.4 billion RUB, or by 4.9%.

In the fourth quarter of 2018, extraction expenses in Russia increased by 3.1%, partially as a result of the hydrocarbon production growth. Our per BOE hydrocarbon extraction expenses increased by 2.5% compared to the previous quarter as a result of seasonally higher maintenance and electricity costs.

Outside Russia, extraction expenses increased by 20.0%, compared to the third quarter of 2018, largely as a result of an increase in gas production volumes and the ruble devaluation. Our per BOE hydrocarbon extraction expenses increased by 9.2% due to launch of new facilities, maintenance works and seasonality factor.

In 2018, our extraction expenses increased by 3 billion RUB, 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 average extraction expenses decreased by 1.6%.

Outside Russia, our hydrocarbon extraction expenses increased by 38.5% 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%. This positive dynamics was constrained by a decrease in our share in profit crude oil at the Karachaganak project in Kazakhstan.

Own refining expense

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(millions of rubles)			
Refining expenses at the Group refineries	28,996	28,318	104,987	86,508
- in Russia	12,783	12,821	45,659	40,970
- outside Russia	16,213	15,497	59,328	45,538
	(ruble per tonne)			
Refining expenses at the Group refineries	1,705	1,621	1,560	1,287
- in Russia	1,170	1,172	1,057	950
- outside Russia	2,669	2,374	2,459	1,887

Our own refining expenses increased by 0.7 billion RUB, or by 2.4%, compared to the third quarter of 2018, and by 18 billion RUB, or by 21.4%, compared to 2017.

Compared to the third quarter of 2018, refining expenses at our domestic refineries didn't change. Outside Russia, our expenses increased largely as a result of an increase in fuel cost and the ruble devaluation to euro, as well as costs of scheduled maintenance at our refinery in Italy in the fourth quarter of 2018.

Compared to 2017, an increase in expenses at our domestic refineries was primarily driven by 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. Outside Russia, our expenses increased largely as a result of an increase in energy cost and the ruble devaluation to 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 represent variable toll that is mostly the difference between the price of feedstocks supplied, including various related costs, and the selling price of the refined products taken. When the refined products are sold, this toll is naturally offset by the respective refined products sales revenue. The agreed compensation is received by the Group company for execution of this agreement.

In the third quarter of 2018, this tolling fee amounted to 4.5 billion RUB, while in the fourth quarter of 2018 due to market conditions refining margin was negative that resulted in negative tolling fee in the amount of 0.9 billion RUB.

In 2018, tolling fee amounted to 7.4 billion RUB, compared to 14.7 billion RUB in 2017.

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.

Compared to the third quarter of 2018, our expenses for crude oil transportation to refineries decreased by 0.9 billion RUB, or by 7.1%, due to changes in structure of crude oil supplies to the Group refineries.

Compared to 2017, our expenses for crude oil transportation to refineries increased by 1.5 billion RUB, or by 3.1%, as a result of an increase in transportation tariffs and changes in delivery terms of crude oil supplies to our refineries outside Russia.

Petrochemical expenses

Our petrochemical expenses increased by 15.2% compared to the third quarter of 2018 due to higher maintenance costs and didn't change 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.

Compared to the third quarter of 2018, other operating expenses decreased by 3 billion RUB, or by 24.2%, mainly as a result of the seasonal decrease in costs of non-petrol sales of our retail network. Compared to 2017, other operating expenses decreased by 8 billion RUB, or by 14.5%, mostly as a result of the sale of our diamond business in the middle of 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.

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(millions of rubles)			
Cost of purchased crude oil in Russia	5,686	6,242	21,458	16,896
Cost of purchased crude oil outside Russia	548,686	669,158	2,213,464	1,314,764
Compensation crude oil related to West Qurna-2 project	10,602	14,180	52,817	33,191
Cost of purchased crude oil	564,974	689,580	2,287,739	1,364,851
Cost of purchased refined products in Russia	14,750	13,686	50,176	50,392
Cost of purchased refined products outside Russia	531,645	561,950	2,067,726	1,659,961
Cost of purchased refined products	546,395	575,636	2,117,902	1,710,353
Other purchases	21,476	12,437	60,898	41,635
Net (gain) loss from hedging of trading operations	(67,020)	10,021	(21,908)	15,909
Change in crude oil and petroleum products inventory	65,603	35,830	89,613	(2,884)
Total cost of purchased crude oil, gas and products	1,131,428	1,323,504	4,534,244	3,129,864

Compared to the third quarter of 2018, the cost of purchased crude oil, gas and products decreased by 192 billion RUB, or by 14.5%, largely as a result of a decrease in hydrocarbon prices and volumes of crude oil trading.

Compared to 2017, the cost of purchased crude oil, gas and products increased by 1,404 billion RUB, or by 44.9%, largely as a result of an increase in hydrocarbon prices, volumes of crude oil trading and the ruble devaluation to the US dollar.

Transportation expenses

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(millions of rubles)			
Crude oil transportation expenses	23,701	24,889	95,913	97,247
Refined products transportation expenses	42,540	40,692	160,972	158,196
Other transportation expenses	(974)	5,043	13,268	17,349
Total transportation expenses	65,267	70,624	270,153	272,792

Our transportation expenses decreased by 5 billion RUB, or by 7.6%, compared to the third quarter of 2018, and by 3 billion RUB, or by 1%, compared to 2017.

Compared to the third quarter of 2018, our expenses for transportation of crude oil didn't change significantly. Outside Russia, transportation expenses decreased as a result of a decrease in sales volumes, despite an increase in freight rates. In Russia, transportation expenses decreased due to lower volumes of crude oil exports and changes in supplies directions.

Compared to 2017, our expenses for transportation of crude oil decreased by 1 billion RUB, or by 1.4%. Outside Russia, the sales volumes growth and the ruble devaluation to the US dollar were offset by the decline in freight rates and changes in delivery terms. In Russia, an increase in tariffs and the sales volumes growth was partially offset by the changes in supplies directions.

Compared to the third quarter of 2018, our expenses for transportation of refined products increased by 1.8 billion RUB, or by 4.5%. Outside Russia, despite a decrease in sales volumes, our expenses increased due to the changes in delivery terms and the ruble devaluation to the US dollar. In Russia, our expenses increased as a result of the changes in directions and delivery terms.

Compared to 2017, our expenses for transportation of refined products increased by 3 billion RUB, or by 1.8%. Outside Russia, transportation expenses increased due to the ruble devaluation to the US dollar, despite a decrease in sales volume. In Russia, transportation expenses increased due to increase in tariffs.

Negative value of other transportation expenses in the fourth quarter of 2018 was due to one-off adjustments related to the Group's PSA projects in Uzbekistan.

Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (excluding extraction entities', refineries' and power generation entities' production staff costs), 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. Our selling, general and administrative expenses are roughly equally split between domestic and international operations.

	Q4 2018	Q3 2018	12 months of 2018	
			2018	2017
	(millions of rubles)			
Labor costs included in selling, general and administrative expenses.....	16,204	16,287	62,959	59,120
Other selling, general and administrative expenses	28,588	24,540	99,123	98,937
Share-based compensation.....	7,841	23,269	31,300	1,135
Allowance for expected credit losses.....	(2,129)	670	(949)	6,139
Total selling, general and administrative expenses	50,504	64,766	192,433	165,331

Compared to the third quarter of 2018 and the twelve months of 2017, our selling, general and administrative expenses decreased by 14 billion RUB, or by 22.0%, and increased by 27 billion RUB, or by 16.4%, respectively.

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 recognized as equity-settled share-based compensation plan.

In the fourth quarter of 2018, the Group recognized non-cash expenses of 7.8 billion RUB under this plan, compared to 23.5 billion RUB in the previous quarter, which related to the nine months of 2018. In 2018, the Group's non-cash expenses under this plan amounted to 31.3 billion RUB.

Depreciation, depletion and amortization

Compared to the third quarter of 2018, our depreciation, depletion and amortization expenses decreased by 54 billion RUB, or by 51.0%, due to significant increase in proved developed hydrocarbon reserves at Group's certain fields as of the end of 2018 and consequent recalculation of depletion of respective fixed assets for 2018.

Compared to 2017, depreciation, depletion and amortization expenses increased by 18 billion RUB, or by 5.5%, due to the completion of commissioning of the first stage of the V. Filanovsky field in 2017, and commencement of related assets depletion, and 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, South Caucasus Pipeline Company and Caspian Pipeline Consortium, midstream companies in Azerbaijan and Kazakhstan.

Our share in income of affiliates increased by 0.2 billion RUB, or by 3.4%, compared to the third quarter of 2018, and increased by 8 billion RUB, or by 49.7%, compared to 2017, largely as a result of an increase in income of Tengizchevroil.

Taxes other than income taxes

	Q4 2018	Q3 2018	12 months of 2018	
	(millions of rubles)			
In Russia				
Mineral extraction taxes.....	235,169	232,845	836,820	544,586
Social security taxes and contributions.....	5,949	6,711	26,506	29,178
Property tax.....	5,558	6,269	24,273	20,308
Other taxes.....	917	264	2,063	2,998
Total in Russia.....	247,593	246,089	889,662	597,070
International				
Social security taxes and contributions.....	1,594	1,468	6,025	6,210
Property tax.....	254	229	904	910
Other taxes.....	766	753	2,792	2,320
Total internationally.....	2,614	2,450	9,721	9,440
Total taxes other than income taxes.....	250,207	248,539	899,383	606,510

Our taxes other than income taxes increased by 2 billion RUB, or by 0.7%, compared to the third quarter of 2018, and increased by 293 billion RUB, or by 48.3%, compared to 2017, that was largely driven by an increase in the mineral extraction tax rate in Russia resulting from an increase in crude oil prices.

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

	Q4 2018	Q3 2018	12 months of 2018	
	(millions of rubles)			
Decrease in extraction taxes from application of reduced and zero rates for crude oil and gas production.....	37,444	37,235	133,300	75,714
	(thousands of tonnes)			
Volume of crude oil production subject to:				
zero rates (ultra-high viscosity).....	448	420	1,630	1,082
reduced rates (tax holidays for specific regions and high viscosity oil).....	1,503	1,432	5,672	5,465
reduced rates (low permeability deposits).....	153	129	517	343
reduced rates (Tyumen deposits).....	255	211	835	811
reduced rates (depleted fields).....	3,896	3,971	15,631	14,420
reduced rates (other).....	601	592	2,310	2,173
Total volume of production subject to reduced or zero rates.....	6,856	6,755	26,595	24,294

Besides, the Group applies special tax regimes for crude oil production at certain fields and deposits. In the fourth quarter and the twelve months of 2018, volumes of production subject to such regimes amounted to 1,641 thousand tonnes and 6,074 thousand tonnes (compared to 1,573 thousand tonnes in the third quarter of 2018 and 4,584 thousand tonnes in 2017), respectively.

Excise and export tariffs

	Q4 2018	Q3 2018	12 months of 2018	
	(millions of rubles)			
In Russia				
Excise tax on refined products.....	22,450	28,358	113,479	119,152
Crude oil export tariffs.....	58,893	59,525	203,310	137,379
Refined products export tariffs.....	17,482	14,619	55,453	41,367
Total in Russia.....	98,825	102,502	372,242	297,898
International				
Excise tax and sales taxes on refined products.....	47,545	49,158	184,249	163,162
Crude oil export tariffs.....	13	22	35	134
Refined products export tariffs.....	86	83	301	331
Total internationally.....	47,644	49,263	184,585	163,627
Total excise and export tariffs.....	146,469	151,765	556,827	461,525

Compared to the third quarter of 2018, export tariffs increased by 2 billion RUB, or by 3.0%, as a result of higher volumes of refined products export and higher export duty rates. The volumes of crude oil export beyond the Customs Union decreased by 1.9% and the volumes of refined products exports increased by 9.7%. In Russia, a decrease of excise tax expenses was largely a result of a recalculation in relation to a decrease in excise tax rates from 1 June 2018 booked in the fourth quarter of 2018. Outside Russia, excise tax expenses were negatively impacted by a decrease in sales volumes.

Compared to 2017, export tariffs increased by 80 billion RUB, or by 44.6%, mainly as a result of an increase in export duty rates. A decrease in excise tax expenses in Russia was driven by a decrease in excise tax rates from 1 June 2018, while outside Russia, the excise tax expenses increased as a result of ruble devaluation to euro, an increase in sales volumes subject to excise taxes, and growth of excise tax rates in certain countries.

Foreign exchange gain (loss)

Foreign exchange gains or losses are mostly related to revaluation of US dollar and euro net monetary position of Russian entities that largely consists of accounts receivables, loans to our foreign subsidiaries and loans received in other currencies, and it's structure resulted in exchange gains when the ruble devaluates and losses when it appreciates to those currencies. In late 2017, as a result of a change in the structure of intra-group financing, the Company's net monetary position in foreign currencies significantly decreased, and in late 2018, it changed from a net-positive to a net-negative amount.

As a result of the ruble devaluation in 2018, foreign exchange gains amounted to 2 billion RUB in the fourth quarter of 2018 and to 34 billion RUB in 2018, compared to a foreign exchange gain of 11 billion RUB in the third quarter of 2018 and a foreign exchange loss of 20 billion RUB in 2017.

Other (expenses) income

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

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

In 2017, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 20.9 billion RUB and for its refining, marketing and distribution assets in Russia in the amount of 2.2 billion RUB.

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

In 2017, we recognized a profit before income tax from sale of our diamond business in the amount of 48 billion RUB (38 billion RUB after income tax). Moreover, in 2017, we received \$74 million (approximately 4.3 billion RUB) 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 and application of reduced regional income tax rates in Russia.

Compared to the third quarter of 2018, our total income tax expense decreased by 3 billion RUB, or by 6.5%. At the same time, our profit before income tax decreased by 28 billion RUB, or by 12.3%. In the fourth quarter of 2018, our effective income tax rate was 20.5%, compared to 19.2% in the third quarter of 2018.

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

Non-GAAP items reconciliation

Reconciliation of profit for the period to EBITDA

EBITDA is not defined under IFRS. We define EBITDA as profit from operating activities before depreciation, depletion and amortization. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and to raise and service debt. EBITDA should not be considered in isolation as an alternative to profit or any other measure of performance under IFRS.

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(millions of rubles)			
Profit for the period	159,220	184,462	621,102	420,422
Add back				
Income tax expense.....	41,044	43,888	151,917	103,762
Financial income.....	(6,236)	(5,132)	(19,530)	(15,151)
Financial costs	12,742	9,955	38,298	27,331
Foreign exchange (gain) loss	(1,586)	(11,215)	(33,763)	19,948
Equity share in income of affiliates	(7,062)	(6,828)	(25,243)	(16,864)
Other expenses (income).....	28,291	780	38,934	(32,932)
Depreciation, depletion and amortization	51,902	105,900	343,085	325,054
EBITDA	278,315	321,810	1,114,800	831,570
EBITDA by operating segments				
Exploration and production.....	190,039	268,631	870,287	569,417
- in Russia	148,749	220,313	717,244	491,191
- outside Russia and Iraq.....	37,036	39,174	127,613	61,038
- in Iraq	4,254	9,144	25,430	17,188
Refining, marketing and distribution segment	81,486	82,189	282,144	263,385
- in Russia	77,519	59,318	231,831	195,479
- outside Russia.....	3,967	22,871	50,313	67,906
Corporate and other.....	(9,545)	(23,404)	(36,154)	1,028
Elimination.....	16,335	(5,606)	(1,477)	(2,260)
EBITDA	278,315	321,810	1,114,800	831,570

Reconciliation of Cash provided by operating activities to Free cash flow

	Q4 2018	Q3 2018	12 months of 2018 2017	
	(millions of rubles)			
Net cash provided by operating activities	325,511	271,199	1,006,651	758,490
Capital expenditures.....	(113,266)	(111,426)	(451,526)	(511,496)
Free cash flow	212,245	159,773	555,125	246,994

Non-recurring losses and gains

As a result of impairment tests in 2018 and 2017, the Group recognized losses on assets impairment. At the same time, in 2017, due to an improvement in economic parameters of some of our projects, the Group reversed significant impairment losses recognized in prior periods. Moreover, in 2017, we recognized a profit before income tax from sale of our diamond business in the amount of 48 billion RUB (38 billion RUB after income tax).

Table below sets forth summary of data on these gains and losses in the context of consolidated statement of profit and loss and their impact on the Group's profit for the periods considered.

	12 months of	
	2018	2017
	(millions of rubles)	
Impairment losses included in <i>Other expense</i>		
Impairment losses in Exploration and Production segment.....	(11,093)	(20,886)
Impairment losses in Refining, Marketing and Distribution segment.....	(634)	(2,241)
Other impairments.....	–	(8,259)
Total impairment losses in <i>Other expense</i>	(11,727)	(31,386)
Impairment reversal included in <i>Other income</i>		
in Exploration and Production segment.....	–	22,202
Other reversals.....		6,246
Total reversals of impairment of assets in <i>Other income</i>	–	28,448
Profit from sale of our diamond business in <i>Other income</i>	–	47,575
Total non-recurring (losses) gains	(11,727)	44,637
Income tax effect	1,877	(9,262)
Total after tax non-recurring (losses) gains	(9,850)	35,375

Liquidity and capital resources

	Q4 2018	Q3 2018	12 months of 2018 2017	
			(millions of rubles)	
Net cash provided by operating activities	325,511	271,199	1,006,651	758,490
including decrease (increase) in working capital	74,193	(39,932)	(33,592)	(24,983)
Net cash used in investing activities	(90,933)	(115,147)	(420,392)	(433,286)
Net cash used in financing activities.....	(130,733)	(130,606)	(468,549)	(247,395)

Changes in operating assets and liabilities:

	Q4 2018	Q3 2018	12 months of 2018 2017	
			(millions of rubles)	
Decrease (increase) in trade accounts receivable.....	164,274	(97,171)	23,877	(84,055)
Decrease (increase) in inventories	83,602	28,789	71,565	(9,350)
(Decrease) increase in accounts payable	(131,972)	25,600	(92,508)	27,720
(Decrease) increase in net taxes other than on income payable	(40,023)	5,655	(8,460)	21,538
Change in other current assets and liabilities.....	(1,688)	(2,805)	(28,066)	19,164
Total decrease (increase) in working capital	74,193	(39,932)	(33,592)	(24,983)

Operating activities

Our primary source of cash flow is funds generated from our operations. Compared to the third quarter of 2018 and the twelve months of 2017, our cash generated from operations increased by 54 billion RUB, or by 20%, and by 248 billion RUB, or by 32.7%, respectively. Compared to the previous quarter, this was a result of change in working capital. Compared to 2017, operating cash flow increased due to an increase in profitability of our core operations.

In the fourth quarter of 2018, a decrease in working capital was mainly driven by a net decrease in trade accounts receivable and inventory in our trading subsidiaries primarily due to a decline in hydrocarbon prices and in trading volumes.

Investing activities

In the fourth quarter of 2018, cash used in investing activities decreased by 24 billion RUB, or by 21%, compared to previous quarter, mostly as a result of dynamics of movement of loans to affiliates. Compared to 2017, cash used in investing activities decreased by 13 billion RUB, or by 3.0%, due to a decrease in capital expenditures. The dynamics of our cash flows from investing activities was also affected by proceeds from sale of our diamond business in the amount of 81 billion RUB in the second quarter of 2017.

Our capital expenditures increased by 2 billion RUB, or by 1.7%, compared to the third quarter of 2018 and decreased by 60 billion RUB, or by 11.7%, compared to 2017.

	Q4 2018	Q3 2018	12 months of 2018		2017
	(millions of rubles)				
Capital expenditures					
Exploration and production					
West Siberia	30,306	27,831	129,050	132,170	
Timan-Pechora	14,739	15,605	69,770	77,079	
Ural region	8,392	8,825	35,374	31,449	
Volga region.....	16,304	16,445	53,481	60,832	
Other in Russia.....	4,813	2,390	11,429	13,944	
Total in Russia	74,554	71,096	299,104	315,474	
Iraq	3,521	6,017	18,849	15,978	
Other outside Russia	9,182	9,137	45,903	112,182	
Total outside Russia	12,703	15,154	64,752	128,160	
Total exploration and production	87,257	86,250	363,856	443,634	
Refining, marketing and distribution					
Russia.....	19,540	21,267	65,326	50,293	
- refining	12,975	16,282	44,621	25,220	
- retail	2,206	2,061	7,433	10,677	
- other	4,359	2,924	13,272	14,396	
International	4,913	3,457	18,616	16,134	
- refining	2,722	2,007	12,381	9,840	
- retail	1,690	670	4,222	5,490	
- other	501	780	2,013	804	
Total refining, marketing and distribution	24,453	24,724	83,942	66,427	
Corporate and other	1,556	452	3,728	1,435	
Total capital expenditures	113,266	111,426	451,526	511,496	

Compared to the previous quarter, our upstream capital expenditures increased by 1.0 billion RUB, or by 1.2%. An increase in expenditures in West Siberia was due to a seasonality factor. A decrease in capital expenditures in Timan-Pechora was largely due to payments in the third quarter of 2018 related to previously accrued expenditure. In the third quarter and the fourth quarter of 2018, we continued developments of the second stages at the Yu. Korchagin and V. Filanovsky fields in the Caspian Sea.

A decrease in capital expenditures in refining in Russia compared to the previous quarter was primarily due to prepayments in the third quarter of 2018 related to the commencement of construction of a delayed coker complex at Nizhny Novgorod refinery.

Compared to 2017, our capital expenditures in the exploration and production segment decreased by 80 billion RUB, or by 18.0%, 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 ruble devaluation.

The table below presents exploration and production capital expenditures at our growth projects.

	Q4 2018	Q3 2018	12 months of 2018		2017
	(millions of rubles)				
West Siberia (Yamal).....	4,721	4,398	22,007	15,723	
Caspian region (Projects in Russia).....	14,087	15,244	47,913	55,932	
Timan-Pechora (Yaregskoye field).....	2,883	1,687	10,304	14,764	
Iraq (West Qurna-2 project)	2,348	5,200	16,366	14,184	
Iraq (Block-10).....	1,173	817	2,483	1,794	
Uzbekistan	2,021	2,928	20,932	84,025	
Total	27,233	30,274	120,005	186,422	

Litigation and claims

The Group is involved in various 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. See Note 28 "Commitments and contingencies" to our consolidated financial statements for detailed information on claims and legal proceedings involving the Group.

Critical accounting policies

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. See Note 3 "Summary of significant accounting policies" to our consolidated financial statements for descriptions of the Company's major accounting policies. 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.

Other information

Sectoral sanctions against the Russian companies

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.

The 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.

Operations in Iraq

The Group is exposed to various risks due to its operations in Iraq. The 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.

Forward-looking statements

Certain statements in this document are not historical facts and are “forward-looking.” 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 products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) 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. Words such as “believes,” “anticipates,” “expects,” “estimates,” “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. 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:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations
- 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
- technological changes
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. 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 are made, and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, 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.