

**SOCIAL CODE
OF OAO LUKOIL**

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CONTENTS

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**PART 1. CORPORATE SOCIAL GUARANTEES TO THE EMPLOYEES AND
NON-WORKING PENSIONERS OF LUKOIL GROUP ORGANIZATIONS**

**1.1. Socially Responsible Settlement of Issues of Labor, Employment and Labor-
Management Relations**

- 1.1.1. Socially Responsible Restructuring
- 1.1.2. Labor Remuneration and Motivation Policies
- 1.1.3. Industrial Safety; Labor and Environmental Protection
- 1.1.4. Social Policies regarding Young Employees

1.2. Quality of Work and Life Conditions for Employees and Their Families

- 1.2.1. Health Protection
- 1.2.2. Recreation, Sports, Physical Culture and Leisure
- 1.2.3. Housing Policies

1.3. Harmonizing Occupational and Family Duties

- 1.3.1. Additional Days of Rest and Holidays
- 1.3.2. Social Support of Large Families and Disabled Members

1.4. Corporate Social Security and Insurance

- 1.4.1. Voluntary Health Insurance
- 1.4.2. Non-State Pension Support
- 1.4.3. Corporate Personal Insurance System

**1.5. Social Support of Disabled Workers and Non-Working Pensioners of LUKOIL
Group Organizations**

- 1.5.1. Social Support for Non-Working Pensioners
- 1.5.2. Social Support for Victims of On-the-Job Accidents and Job-Related
Illnesses

- 1.5.3. Social Support for Non-Working Disabled Workers

PART II. SOCIALLY RESPONSIBLE PARTICIPATION IN SOCIETY

- 2.1. Development of Single-Industry Settlements
- 2.2. Environmental Protection Activities
- 2.3. Development of Science, Education, Technology, and Innovation
- 2.4. Preservation of Distinctive National Cultures
- 2.5. Support for Culture and Sports
- 2.6. Promotion of Social Groups and Public Associations in Need of Support
- 2.7. Charity Activities of the Company and Its Employees

PART III. ECONOMIC BASIS OF SOCIAL INITIATIVES

3.1. Ongoing Control over Social Expenditures

- 3.1.1. Mechanisms of Control over Corporate Pension Expenditures
- 3.1.2. Control over Consumption of Medical Services in the Corporate Healthcare
System

3.2. Optimization of Social Infrastructure Maintenance

- 3.2.1. Forms of Participation in Maintenance of Social Facilities

- 3.3. Improving the Efficiency of Social Services
 - 3.3.1. Outsourcing of Social Services on a Competitive Basis
- 3.4. Implementation of Joint Financing Principles
 - 3.4.1. Employee Participation in Corporate Social Insurance and Provision
 - 3.4.2. Joint Payments of Employees, their Family Members, and the Local Population for Using the Social Infrastructure of LUKOIL Group organizations
 - 3.4.3. Long-Term Mortgage Lending
 - 3.4.4. Participation in Social/Economic Development Programs Stipulated by Municipal, Regional and Federal Budgets
- 3.5. Increase of Intangible Assets
 - 3.5.1. Socially Responsible Investment
 - 3.5.2. Social Aspects of Business Reputation
 - 3.5.3. Socially Responsible Relations with Contractors and Suppliers

CONCLUSIONS

GLOSSARY OF TERMS USED

SOCIAL CODE OF OAO LUKOIL

The open joint-stock company "LUKOIL Oil Company" is a responsible corporate citizen and an honest participant in the market economy. Combining these two missions, OAO LUKOIL (hereinafter referred to as the Company) voluntarily and on its own initiative assumes the commitments listed below regarding a socially responsible attitude towards all parties whose interests are affected by the Company's activities.

The implementation of these commitments (time of introduction, amount of financing, etc.) is the subject of collective negotiations with the Company's trade unions and is fixed in the Agreement between the Company and the trade union, as well as in local regulatory documents.

The concepts and standards set out in this Social Code are binding on the Company, its subsidiaries and the non-commercial organizations under its control (hereinafter referred to as the LUKOIL Group).

In adopting this Social Code, the Company affirms that these commitments:

- are predominantly supplementary to the legislation of the Russian Federation and international standards;
- neither abolish nor replace the results of collective negotiations with employees;
- are addressed to the employees and non-working pensioners of LUKOIL Group organizations, the Company's shareholders, and in a broader sense to its commercial partners, the state and civil society;
- are based on economic calculations confirmed by the stockholders and business partners;
- take into account the joint initiatives of market participants and partnership with the state and society;
- shall be reviewed at regular intervals during collective negotiations on an Agreement between the Company and the trade union, followed by the approval of the required changes at a meeting of the Company's Board of Directors.

The Company shall do its utmost to meet the commitments in this Social Code, regardless of the economic situation in Russia and the world.

PART 1. CORPORATE SOCIAL GUARANTEES TO THE EMPLOYEES AND NON-WORKING PENSIONERS OF LUKOIL GROUP ORGANIZATIONS

Observing fundamental principles and rights in the sphere of labor, other international labor standards, the labor legislation of the Russian Federation and other countries of residence, the Company aims for higher social goals in the fields listed below:

1.1. Socially Responsible Settlement of Issues of Labor, Employment and Labor-Management Relations

1.1.1. Socially Responsible Restructuring

Taking into consideration the scale of employment in LUKOIL Group organizations and the single-industry economy of many regions in which they operate, the Company takes a socially responsible approach to restructuring its units and organizations under its control, as well as to de-localization of the production facilities.

In the event significant layoffs become necessary, the Company shall do the following, over and above the legislative requirements:

- make every effort to find a job for the maximum number of released employees with the organizations of the LUKOIL Group;
- undertake measures together with federal and regional authorities with the aim of mitigating the consequences for the regional labor market of the de-localization of facilities, including ensuring adequate advance notification of LUKOIL Group plans to reduce employment numbers, financing the retraining of employees, and creation of new jobs;
- participate in carrying out resettlement programs for employees and their families in the event of the closure of facilities in single-industry regions, including corporate mortgage programs for the acquisition of housing.

1.1.2. Labor Remuneration and Motivation Policies

Taking into account the fundamental nature of its labor remuneration and motivation policies in employee relations, the Company shall base this policy on the following principles:

- integrity of labor remuneration and motivation policies for all organizations of the LUKOIL Group;
- establishment of a minimum guaranteed wage in LUKOIL Group organizations for all professional and qualification categories of employees, at a level exceeding the statutory minimum wage, with the aim of meeting the basic necessities of life and granting a certain amount of disposable income;
- transparency, objectivity and competitiveness of the employee remuneration and incentive system;
- regular indexing of wages and salaries based on the consumer price index;
- periodic increases of wages and salaries due to increases in productivity;
- use of flexible bonus systems in order to best take into account the individual contribution of each employee.

1.1.3. Industrial Safety; Labor and Environmental Protection

In view of the Company's strategic goal of maintaining industrial safety and labor and environmental protection in all its units and organizations under its control at the level of the leading global oil companies, the Company takes the following measures:

- it adheres to the principle of the priority of employees' life, health and safety over production results;
- it ensures the fulfillment of its commitments outlined in the Corporate Policies in industrial safety and labor and environmental protection in the 21st century;
- it creates and maintains the local legal and regulatory framework, organizational structure and financing mechanisms for the system of industrial safety and labor and environmental protection management, based on continuously improving norms and standards;
- it provides favorable conditions for public oversight;

- it consistently identifies and investigates hazardous objects and threats to health within LUKOIL Group production facilities, and takes actions to eliminate them or mitigate their impact;
- it employs the latest technologies and management techniques to decrease industrial waste, minimize harm to the environment, and preserve natural resources;
- it continuously improves production tools, based on global experience in developing and implementing safe processes and equipment;
- it maintains the priority of preventive measures in environmental protection at all stages of the production cycle;
- it provides timely notice to all parties concerned in instances of environment pollution and oil and oil-product spills;
- it takes measures aimed at gradual reducing waste and emissions of pollutants, decreasing their toxicity regardless of trends in output volume through the use of modern environmentally friendly processes, equipment, materials and management techniques;
- it supervises LUKOIL Group contractors to ensure that they adhere to the concepts and standards of industrial safety and labor and environmental protection at least at the level accepted in the Company;
- it supports an open dialogue with all parties involved, including critical figures in the community, and regularly makes public the results of the Company's nature-conservation activities.

The Company consistently strives to provide:

- safe and ergonomic workplaces in all organizations of the LUKOIL Group;
- functional and high-quality working clothes and footwear for all its production employees;
- pure drinking water for the employees of all the LUKOIL Group organizations in the workplace and in rotational villages;
- adequate sanitary and hygiene conditions in the workplace;
- the opportunity to enjoy high-quality hot meals at all LUKOIL Group facilities.

1.1.4. Social Policies regarding Young Employees

Because the potential for the stable development of LUKOIL Group organizations depends on an inflow of skilled and qualified young workers, the Company consistently implements a policy aimed at:

- creating jobs for young employees;
- providing an opportunity to combine job duties with continuing education, advanced training, and professional growth;
- assisting young workers and their families in finding accommodation;
- rendering financial assistance to young workers and their families when moving to new work sites within LUKOIL Group organizations.

1.2. Quality of Work and Life Conditions for Employees and Their Families

Recognizing its responsibility for providing adequate working and living conditions for its employees and the members of their families, the Company takes initiatives above all in the following spheres:

1.2.1. Health Protection

With the aim of maintaining and strengthening the physical and psychological health of each employee, the Company carries out the following measures:

- it finances activities aimed at improving the health of employees;
- it develops and implements corporate standards for medical care at the production facilities of LUKOIL Group organizations, pursuant to Russian law and international standards for public health care;
- it registers and analyses sickness rates, the causes of disability and the mortality rate among the employees of LUKOIL Group organizations;
- it monitors the conditions of employee's work and health in all LUKOIL Group organizations to evaluate occupational risks of health damage;
- based on periodic health examination results and analysis of sickness rates, it develops long-term and annual preventative-care and health-promotion programs, including vaccination and sanatorium and spa treatment of its employees;
- it regularly organizes prophylactic medical inspection of its employees;
- it allocates special-purpose funds for sanatorium and spa treatment of its employees;
- it exercises control over targeted and specialized protection of the rights of expectant mothers, nursing mothers and women with large families, as well as the rights of women of childbearing age working under hazardous and harmful conditions at LUKOIL Group organizations.

1.2.2. Recreation, Sports, Physical Culture and Leisure

With the aim of promoting and contributing to healthy lifestyles, the Company:

- develops and implements comprehensive health-improvement and sports-participation programs among its employees and their family members who live under harsh climatic conditions;
- involves its employees and their family members in recreational activities and promotes mass sports by providing relevant infrastructure and organizing training and competitions;
- provides discounts (paid for by LUKOIL Group organizations) on vouchers for sanatorium and spa treatment of Company employees and their family members;
- assists in organizing summer holidays for employees' children by partial compensating the cost of vouchers and/or trips;
- organizes leisure time of its employees and their family members at the corporate level;
- systematically promotes healthy lifestyles and preventative medicine among its employees in the corporate media.

1.2.3. Housing Policies

Taking into account the seriousness of the housing problem and economic inefficiency of solving this problem using solely the employer's assets, the Company shall establish its housing policies based on the following principles:

- ensuring staff mobility of the employees of the LUKOIL Group organizations;
- providing comfortable housing for employees in dormitories and rotation villages;
- ensuring easy access to housing loans for each employee of the LUKOIL Group organizations;
- establishing a system of long-term corporate mortgage lending based on the principle of self-sufficiency, without diverting funds from the production operations of LUKOIL Group organizations;

- protecting an employee's interests against negative macroeconomic factors within the corporate mortgage system;
- ensuring the repayment of mortgage loans using as security employees' individual savings with corporate insurance systems;
- using the opportunities of mortgage lending for programs of resettling the non-working pensioners of LUKOIL Group organizations and members of their families from the Far North and economically unfavorable regions on the condition of legal security for mortgage loans.

1.3. Harmonizing Occupational and Family Duties

Recognizing the significance of harmony between job duties and family in the life of each person and governed in its actions by the standards of International Labor Organization Convention No. 156 (employees with family obligations), the Company assumes the following obligations:

1.3.1. Additional Days of Rest and Holidays

Over and above the requirements of labor legislation, the Company shall grant:

- one additional paid day off monthly to women employed by LUKOIL Group organizations located outside the Far North and similar regions;
- additional paid leave for mothers with large families;
- both paid and unpaid short-term leaves due to family circumstances.

1.3.2. Social Support of Large Families and Disabled Members

In view of the fact that the amount of salary does not depend on the number of dependants in a family, the Company offers its employees the following cash benefits and compensations:

- one-time grant on the birth (adoption) of a child;
- monthly allowance to employees (mothers or fathers) on childcare leave until the child is three years old;
- annual benefits to employees with handicapped children under 18;
- payments to lower-income families with three or more minor children and to children whose parents have died or become handicapped in on-the-job accidents, to compensate for the costs of keeping children in pre-school institutions and recreation camps;
- partial refunds of the costs of vouchers for sanatorium and children's health centers for handicapped children and orphans of employees of LUKOIL Group organizations.

1.4. Corporate Social Security and Insurance

While keeping its commitments to state-run systems of social insurance and providing security for all employees through mandatory social protection programs, the Company also supports and promotes the following forms of additional corporate social insurance and social security:

1.4.1. Voluntary Health Insurance

The goal of corporate voluntary health insurance is provide the employees of LUKOIL Group organizations with easy access to a wider range of higher-quality health care and services, and has been established based on the following principles:

- fulfillment of the provisions of the approved Corporate Standard of Health Protection;

- financing of the voluntary health insurance program;
- ensuring permanent outside (independent) oversight of the quality of health care provided in medical institutions in order to protect employees' rights and interests.

1.4.2. Non-State Pension Support

The long-term goal of non-state pension support for employees of LUKOIL Group organizations within the framework of the corporate pension system is to increase the level of recovery of the former earnings. The Company believes that the most cost-efficient way of accomplishing this goal is based on the following principles:

- maintaining and developing a uniform system of non-state pension support to employees of LUKOIL Group organizations at the expense of the employer;
- creating conditions to promote employee participation in raising their own pension savings;
- implementing a gradual transition from the existing uniform system of providing fixed non-state pensions to a system of fixed contributions, where the amount of pension depends on the amount of contributions made on share participation basis;
- guaranteeing the preservation and growth of pension savings;
- allowing the use of accumulated pension savings before the employee qualifies for a pension only to guarantee the repayment of loans within the framework of the corporate mortgage program.

1.4.3. Corporate Personal Insurance System

The Company promotes personal insurance for its employees at the corporate level with the aim of widening their access to insurance services and increasing the degree of their family protection in the event of accidents. The Company supports and promotes at a minimum the following forms of personal insurance at the corporate level:

- supplementary personal insurance against on-the-job accidents;
- catastrophic illness insurance;
- life insurance without restrictions as to cause of death.

All forms of personal insurance within the corporate system can take place with the employee's participation in their financing, except for supplementary on-the-job accident insurance, which is financed by the employer.

The Company also provides its employees with free information services and consulting on extending their insurance coverage and protecting their interests on the insurance market.

1.5 Social Support of Disabled Workers and Non-Working Pensioners of LUKOIL Group Organizations

Taking into account the socially vulnerable position of persons receiving state pensions and the relatively low level of pensions at the initial stage of development of the corporate pension system, the Company conducts a policy aimed at providing social support to non-working pensioners of LUKOIL Group organizations:

1.5.1. Social Support for Non-Working Pensioners

With the aim of maintaining the living standard of the employees of LUKOIL Group

organizations who retire during the rather difficult transition period, the Company has taken on the following commitments:

- to pay a one-time grant to a retiring employee;
- to provide regular monetary assistance to non-working pensioners who are not paid a non-state pension from LUKOIL Group organizations;
- to preserve the rights of non-working pensioners to participate in the corporate voluntary health insurance system.

1.5.2. Social Support for Victims of On-the-Job Accidents and Job-Related Illnesses

The Company strives to assist in the social and occupational rehabilitation of its employees who become disabled as the result of an on-the-job accident or job-related illness while employed by a LUKOIL Group organization; in connection with this, the Company undertakes the following initiatives:

- full compensation of special medical care and annual sanatorium and spa treatment costs;
- financial and organizational support in acquiring prosthetics abroad if they cannot be acquired in the country of the employee's residence.

1.5.3. Social Support for Non-Working Disabled Workers

The company has taken on the following additional commitments to provide social support to employees who become disabled and retiree while employed in a LUKOIL Group organization:

- to preserve their right to participate in the corporate voluntary health insurance system;
- to grant vouchers for sanatorium and spa treatment, with partial compensation of their cost.

PART II. SOCIALLY RESPONSIBLE PARTICIPATION IN SOCIETY

While recognizing the new social commitments of business in conditions of growing inequality in access to worthwhile employment and benefits, the Company voluntarily commits itself to socially responsible participation in the life both of the local population in the regions where LUKOIL Group organizations operate and in society as a whole.

2.1. Development of Single-Industry Settlements

Taking into consideration the fact that the largest organizations in the oil-production sector of the LUKOIL Group are the sole or chief employers in the regions in which they operate, the Company bases its activities on the following principles:

- mutually beneficial cooperation with the regional and municipal authorities for the good of the socio-economic development of the area;
- development of compensatory activities of the LUKOIL Group oil-production organizations as oil resource users;

- socially responsible behavior to both the employees of LUKOIL Group organizations and the local population as a whole.

While developing oil-production capacities and creating high-quality working and living conditions in such regions, the Company is ready to participate in shared financing of the repair and reconstruction of facilities intended for social, household and cultural purposes for the sake of the region's population.

2.2. Environmental Protection Activities

The Company is a major user of subsoil assets and recognizes its social responsibility to preserve favorable environmental conditions and ensure the rational use of natural resources. The Company also assumes that society understands the complexity and magnitude of the tasks facing the Company in this field; for this purpose:

- the Company regularly informs all parties affected by the Company's activities in industrial and environmental safety and maintains an open dialogue with them. It publishes reports on its activities and results of studies of impact on the environment, its personnel and the population;
- the Company attempts to promote understanding of health and environmental protection issues among shareholders, partners and the population living in the areas where LUKOIL Group organizations operate.

2.3. Development of Science, Education, Technology, and Innovation

The Company's competitive advantage depends on a scientific approach to the development of natural resources and development of the scientific and engineering basis for new technologies and materials, plus high standards of vocational training of employees; thus, the Company contributes on an ongoing basis to developing science and raising the quality of education by:

- financing the R&D in the field of the exploration and development of hydrocarbon reserves, developing innovative technologies and materials, reducing oil production costs, and improving environmental protection at production sites and in many other branches of the oil and gas industry;
- providing financial support to specialized regional educational and research programs and projects;
- strengthening the material and technical basis of specialized vocational training institutions and the training units of LUKOIL Group organizations;
- organizing competitions among young scientists and specialists for scientific and technical developments;
- providing organizational and material support to post-graduate students and doctoral candidates employed by LUKOIL Group organizations;
- providing material incentives to young people attending classes at specialized vocational training institutions.

2.4. Preservation of Distinctive National Cultures

The Company highly appreciates the additional opportunities given to the Company by the rich national and cultural diversity of its employees and of the population in the regions where LUKOIL Group organizations operate. The Company bases its work with personnel and the local population on the following principles:

- maintaining and upholding the traditions of ethnic tolerance and goodwill characteristic of the multinational oil industry;
- creating conditions to preserve national and cultural traditions, values, skills, and crafts in the regions where LUKOIL Group organizations operate;
- respecting the religious beliefs of employees and the local population and assisting in revival of national religious shrines;
- assisting native peoples in obtaining access to vocational training, skilled jobs, higher education, and also to better recreation and health conditions.

To this end the Company, to the extent possible, takes the following steps. These are:

- partial compensation of the cost of vouchers for summer recreation, including the cost of trips for children of employees who are members of small aboriginal ethnicities;
- payment for the higher education of students who are members of small aboriginal ethnicities and who are studying subjects related to oil and gas;
- provision of assistance in renovating national historical sites;
- provision of assistance in renovating and building places of worship of different faiths in the regions where LUKOIL Group organizations operate;
- provision of material and organizational support to folk-art groups, institution providing arts education to children, and other organizations working to develop popular skills and crafts;
- assisting in the organization of competitions, festivals, and concerts of folk-art groups;
- assisting in the organization of trading in souvenir, hand-made goods and traditional crafts in cities, with a view to giving material support to the small businesses of native peoples.

2.5. Support for Culture and Sports

Recognizing the fundamental role of patronage and sponsorship in developing culture and sports in a market economy, the Company seeks opportunities to provide material support to:

- creative persons and groups, theaters, and museums;
- sports teams, ranging from the neighborhood level to national teams;
- public organizations supporting children's sports.

2.6. Promotion of Social Groups and Public Associations in Need of Support

Recognizing the importance of a mature civil society as an active and independent party in negotiations among the state, business and society, to the extent possible the Company offers material and organizational support to:

- public veterans organizations, with the aim of supporting a social group left in a difficult material situation by the transition to a market economy;
- public associations of veterans and/or family members of military men who participated in military conflicts or died during such conflicts or in the course of law-enforcement operations;
- public organizations of the handicapped, with the aim of creating a social environment where those with physical handicaps can take full advantage of life's opportunities;
- public associations and their initiatives with orphans, homeless children, and refugee children;

- public associations of refugees.

2.7. Charity Activities of the Company and Its Employees

The Company recognizes the enduring value of charitable activities in any society and the fact that certain organizations and people in particular are in need during the difficult transition period, and therefore the Company uses all available opportunities to provide charity help to:

- individuals such as refugees, long-service employees, the handicapped, orphans, the families of soldiers and officers killed in the line of duty, families of employees of LUKOIL Group organizations killed on the job, and many others;
- state-financed social facilities in a difficult position, such as hospitals, orphanages, senior citizens' homes, educational institutions, and institutions of science and culture;
- religious and charitable organizations.

The care of orphaned children is considered by the Company to be one of highest priorities of its charitable activities.

Charitable funds are available either from the assets of LUKOIL Group organizations, or from the personal contributions of employees.

PART III. ECONOMIC BASIS OF SOCIAL INITIATIVES

As a participant in good faith in free competition and an efficient owner, the Company takes on social and ethical commitments that are economically justified, which it intends to fulfill using the following economic sources and mechanisms:

3.1. Ongoing Control over Social Expenditures

The Company's organizational structure includes a centralized system for accounting, analysis and monitoring of the Company's social expenses, in order to control social expenditures on an ongoing basis, perform expert analysis of their social/economic grounds, and predict the likely consequences of all changes made in this sphere.

3.1.1. Mechanisms of Control over Corporate Pension Expenditures

Pension expenditures are controlled at three levels. These are:

- on the part of pension plan participants (employees and pensioners) as to the state of pension accounts and through the participation of employee representatives on the Supervisory Board of pension fund and in the Organizational Commission dealing with non-state pension support;
- on the part of shareholders, based on the results of financial statements and audit reports;
- in the state supervision system, by the results of financial statements and special reporting by the Company and the pension fund, audits carried out by the relevant state agencies and also by the results of actuarial assessments of the Company's pension fund and pension program.

3.1.2. Control over Consumption of Medical Services in the Corporate Healthcare System

In order to prevent unjustified growth of expenses for the medical care of employees and pensioners in the voluntary medical insurance program, the Company takes the following steps:

- through the medical insurance company with which it works, it carries out a three-stage expert examination of the amounts, conditions and quality of medical service available. The examination includes medical/economic expert analysis of accounts from medical establishments, scheduled and special-purpose assessment of the quality of medical treatment, as well as inspections to protect the rights of insured employees and pensioners of LUKOIL Group organizations;
- it demands a report on the use of medical services by insured employees and pensioners of LUKOIL Group organizations from the medical insurance company with which it works when agreeing on amounts of financing.

3.2. Optimization of Social Infrastructure Maintenance

The Company recognizes that a social infrastructure unrelated to basic production facilities should be held on the balance sheet of a commercial enterprise only in the case of urgent necessity, to compensate for shortcomings in the private and state sectors, either in a given area or a given industry. Because of this, when tackling problems of maintaining social/utility and other nonproductive facilities, the Company uses the following approaches, with due account of local conditions:

3.2.1. Forms of Participation in Maintenance of Social Facilities

The Company strives:

- to transfer existing or newly built social infrastructure to the municipalities, whenever it is possible to guarantee the preservation of the facility's use, the access of employees and the local population to medical services, and facility's proper maintenance;
- to retain on the balance sheet of LUKOIL Group organizations those social infrastructure facilities that are needed by employees and their family members, to add to the infrastructure and range of services lacking in a given locality, or otherwise to increase the protection of the interests, rights and assets of employees;
- to provide priority to employees and pensioners of LUKOIL Group organizations in obtaining medical treatment from the convalescence institutions on their balance sheets;
- to use the participation of LUKOIL Group organizations in a flexible way in the repair, renovation, construction, and maintenance of social infrastructure facilities, including share participation in ownership of property.

3.3. Improving the Efficiency of Social Services

In line with modern trends in production management and out of respect for the consumer's freedom of personal choice, the Company tries to minimize its provision using internal resources of social services and other products unrelated to the main production facilities. To this end, the Company uses the following approaches:

3.3.1. Outsourcing of Social Services on a Competitive Basis

In order to satisfy many social needs of personnel, the Company makes broad use of outsourcing,

by attracting independent contractors and suppliers based on genuine competition. The Company realizes that the outsourcing:

- cuts down the internal expenses of LUKOIL Group organizations;
- maintains the level of protection of employees' interests, rights and assets on the services market;
- widens the consumer's freedom of choice in services;
- promotes the development of a local market for services and goods;
- promotes improvement in the price/quality ratio through genuine competition.

The Company also realizes that the use of outsourcing is restricted to regions that have advanced markets for services. This means that in many outlying regions LUKOIL Group organizations must continue to provide social services themselves, or even engage in insourcing, to restore the equal access of employees to corporate social guarantees.

3.4. Implementation of Joint Financing Principles

The Company recognizes that bringing together different sources of financing for social welfare provides a sound basis for a dialogue among equals, employee's self-responsibility, and mutually beneficial cooperation with the state. To this end, the Company develops the following types of joint financing:

3.4.1. Employee Participation in Corporate Social Insurance and Provision

The employee's contribution to the corporate insurance or support system in an equal or smaller amount than the employer's contribution has the following effects:

- strengthens the employees' position in controlling insurance funds;
- legitimizes the insurance contribution as a form of deferred wages;
- improves the predictability of payments to employees;
- improves the self-responsibility of employees;
- raises the level of insurance support, all other things being equal.

To this end the Company organizes planned transition to joint financing with employees of:

corporate pension support and corporate personal insurance*.

3.4.2. Joint Payments of Employees, their Family Members, and the Local Population for Using the Social Infrastructure of LUKOIL Group organizations

LUKOIL Group organizations may set different rates of payment for services received by employees, members of their families, and the local population from their social infrastructure facilities. This approach makes it possible:

- to show concern for employees of the LUKOIL Group organizations;
- to provide control over consumption of services;
- to decrease the maintenance costs of LUKOIL Group organizations on these facilities;
- to insure the permanent development and expansion of the range of services.

Service fees for the local population should be kept at a level that does not prevent the population from accessing the social infrastructure of LUKOIL Group organizations, particularly in regions where this infrastructure supplements poor municipal infrastructure.

3.4.3. Long-Term Mortgage Lending

In order to better tackle the most severe and costly social problem-that of providing employees and their families with decent living conditions-the Company tries to develop the most cost-effective tool, i.e. a long-term mortgage program.

Development and practical implementation of this type of lending within the framework of the corporate system makes it possible to:

- improve the attractiveness of work in LUKOIL Group organizations;
- divest housing from the balance sheet;
- augment programs of resettlement from areas that are not promising;
- not divert funds from the production operations of LUKOIL Group organizations;
- achieve the necessary level of trust between borrower and creditor;
- monitor and influence credit repayment;
- attract investment in regional housing construction.

3.4.4. Participation in Social/Economic Development Programs Stipulated by Municipal, Regional and Federal Budgets

In its relations with the federal and regional authorities and local governments, the Company strives for partnership for the benefit of comprehensive social and economic development of the regions where LUKOIL Group organizations operate, and for the purpose of creating a favorable business climate in these areas. Taking into consideration the diversity of geographical, social, economic, demographic, and other living conditions in the areas where LUKOIL Group organizations operate, the Company strives for a flexible approach to seeking possibilities for joint financing and joint participation with the state and with local governments in social and economic development. To this end, the Company makes use of the following opportunities:

- participation in social programs at the federal, regional and local levels, dealing above all with single-industry (oil and gas) settlements, areas with poor economic prospects, and areas with severe climatic conditions;
- economic methods, i.e. the placing of orders with local suppliers and manufacturers, agreeing on supplies of fuel, oils and lubricants, participation in the development of the transport infrastructure through construction of refueling stations, and other methods;
- providing the local population with access to the social-and-utility infrastructure of LUKOIL Group organizations;
- performing charitable activities.

3.5. Increase of Intangible Assets

The Company recognizes that in the modern world socially responsible behavior with respect to employees and society as a whole serves in the end to increase the capitalization of the Company. In this respect the Company considers many social costs to constitute an investment in intangible assets, and tries to eventually conform to the highest standards in the following fields that public opinion judges quite strictly:

3.5.1. Socially Responsible Investment

When investing in securities and material production, without detriment to the economic nature

of these operations the Company tries to take ethical and social aspects into account. The Company strives to ensure that its investments contribute to:

- improving the social protection of employees;
- creating a more equitable and stable economy;
- preserving the environment;
- decreasing inequality among people.

The Company strives to attain full information and ensure due care in order to prevent the accumulation and use of capital resulting from the use of forced labor and child labor, trafficking in narcotics, and activities injurious to the health of people and to the environment.

3.5.2. Social Aspects of Business Reputation

The Company believes strongly that the social aspect of business is ever more important to a company's business reputation, and supports the spread of this tendency in the business world.

The Company tries to ensure that society associates its symbols and trademarks with socially responsible behavior in general and with its specific social initiatives and projects in particular.

3.5.3. Socially Responsible Relations with Contractors and Suppliers

Realizing that modern standards of relations between business and society require that the Company be responsible for the actions of its suppliers and contractors, the Company takes a responsible approach to selecting them.

The modern scale and level of complexity of economic interdependence require that in this regard the Company must have a special system for accounting, selecting and monitoring, and the Company must develop this system. In so doing, the Company's basic selection criteria must include:

- that suppliers and contractors observe fundamental principles and rights in the area of labor relations, as accepted by the International Labor Organization and the International Standard "Social Responsibility 8000";
- that they pursue effective policies in the field of industrial safety and environmental protection.

CONCLUSIONS

In confirmation of the permanence and serious nature of its commitment to socially responsible behavior, the Company creates internal mechanisms, on both the management and trade-union levels, to monitor the Company's adherence to this Social Code.

The Company also confirms its acceptance of various types of external control on the part of society, including participation in reviews, competitions of both a state or public nature, and also its readiness to arrange public forums to meet with critics having a moral right to dialogue with the Company.

The Company recognizes that unilateral adoption of social commitments by a commercial enterprise is impossible in a competitive environment, and therefore the Company relies on an attitude of solidarity on the part of other market participants and the interested cooperation of the

state.

GLOSSARY OF TERMS USED

Actuarial evaluation (pension evaluation)	Set of methods for demographic and financial analysis, with the aid of which the cost of pension payments to employees for their past and future activities (as of evaluation date) is evaluated.
Company Code	A written document, usually widely published, which is developed and adopted by the company to express its ethical positions and to make commitments as to its ethical and/or socially responsible behavior.
Corporate citizenship	Position of a company that recognizes that is not merely an economic agent, but also a citizen of the society in which it operates. The term is widely used in corporate codes of ethics and in international discussion.
Corporate system of personal insurance	The aggregate of supplementary types of insurance to provide company employees and the members of their families with protection of their interests associated with life, health, and ability to work. The system comprises the following types of employee insurance: supplementary on-the-job accident insurance, life insurance without restriction as to cause, and catastrophic illness insurance.
Delocalization of production	Removal of production from a given area.
Ergonomics	Study of the rational organization of the workplace and living spaces.
Intangible assets	General term for assets that are valuable in helping the business, but which are not easily turned into cash, since they have no material form, e.g. goodwill, patents, copyrights, and trademarks.
Long-term lending for housing (mortgage)	Lending to individuals for an extended term (more than three years) in order to acquire a dwelling, secured by the dwelling thus acquired.
Outsourcing/insourcing	Transfer of certain types of work and production operations to outside organizations/return to the Company of work and production operations previously outsourced.
Pension system with fixed contributions	A pension insurance system in which the amount of payments is determined as the sum of contributions made divided by the expected number of years during which the pension shall be received.
Restructuring	Process of reorganization in which the composition and operations of a company may be altered completely. Restructuring frequently results in the elimination or replacement of departments and divisions, causing temporary and permanent layoffs.

Single-industry settlements	A settlement founded in a given locality as a direct result of the construction of production facilities and associated service facilities.
Social initiatives of company	Efforts taken by company voluntarily and on its own initiative in order to improve the living and working conditions of employees, the local population, and other social groups, or society as a whole.
Socially responsible investment	An investment that takes into account both the financial/economic and ethical aspects of this operation. The aspiration to avoid contact with counterparties who have sullied their business reputation with anti-social actions.
Socially responsible restructuring	Company's efforts to mitigate and compensate the negative effects on employees and the local population that may occur during large-scale layoffs, delocalization and closure of production facilities, job cuts, and reorganization.
Stakeholders	Economic agents, social groups, and state authorities that the business affects and which may in turn affect the business.