MAKING OPPORTUNITIES REALITY

LUKOIL GROUP
SUSTAINABILITY REPORT 2017
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This is the eighth Sustainability Report of the LUKOIL Group (the “Report”), and presents the performance results for the period from 1 January 2017 to 31 December 2017.

The previous report was published in October 2017 (for the period from 1 January 2015 to 31 December 2016). The Company was awarded for the quality of its non-financial reporting in 2017, winning the Moscow Exchange’s 20th Annual Report Competition in the category “Best Corporate Social Responsibility and Sustainability Report”. The LUKOIL Group consistently ranks in the top 10 in the Responsibility and Openness and Vector of Sustainability indexes prepared by the Russian Union of Industrialists and Entrepreneurs (RUIE), based on an analysis of the public reporting of the 100 largest companies in Russia.

We have been publishing sustainability reports since 2005 (that report includes performance results for 2003-2004). They are addressed to a wide range of stakeholders and seek to provide balanced information that is relevant to the interests of each group. As part of its corporate governance system, the Company pays significant attention to improving its sustainability efforts and to raising the quality of the information reported. We believe an important factor in meeting these objectives is the performance of an independent assurance of the information disclosed, as well as the public assurance of the Report. The audit opinion on the assignment to provide limited assurance in respect of the Report is published on page 100. The public conclusions on the Report, by the RUIE Non-Financial Reporting Council, are published on page 103 hereto.

Reports for previous periods are available at the LUKOIL website.
A comprehensive analysis determined eight priority topic areas for the company in the medium term.

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Dear friends!

PJSC LUKOIL has been publishing sustainability performance results for the past 15 years. The Company has always sought to work not only to benefit its shareholders and employees, but also society as a whole. We are convinced that our successful development is only possible if we take into account the interests of the communities of the countries where we operate.

Today we are observing changes in technology, business, and the natural environment that are more rapid than in previous decades, and are having a more noticeable impact on business, people, and society as a whole. We are convinced that our successful development is only possible if we take into account the interests of the communities of the countries where we operate.

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At the end of 2017 the LUKOIL Group’s Strategic Development Program for 2018–2027 was approved. This program embodies our sustainability priorities. The Company’s operations are geared towards achieving the Sustainable Development Targets established by the United Nations, including in such areas as combating climate change. The results for 2017 show that we reduced greenhouse gas emissions, including through improving the utilization of associated petroleum gas: this indicator exceeded 95% for the LUKOIL Group. Projects involving the development of renewable energy sources also contributed to the reduction in greenhouse gas emissions. After successfully implementing solar and wind power projects in Romania and Bulgaria, LUKOIL built and commissioned in 2017 the first major commercial generation facility in Russia – a 10-MW photovoltaic power station in Volgograd.

Taking into account our production development plans, we have set ourselves the target of reducing greenhouse gas emissions by 1.2% by 2020 compared to the 2016 level.

The results of the reporting year demonstrate a decrease in indicators such as water consumption for own needs, including the consumption of water from natural sources in the Russian organizations of the LUKOIL Group.

In the regions where we operate we allocate significant resources to social projects to support education, healthcare, culture, and sport. We allocated over RUB 9 billion to these projects in the reporting period.

The socially important results presented here would be impossible without effective production operations achieved on key projects: the development of the V. Filanovsky field in the Caspian Sea, the Pyakyakhinskoye field in Western Siberia, the Yaregskoye field in the Komi Republic, and gas fields in Uzbekistan.

These projects have created thousands of jobs, generated additional tax revenues for the states and regions where we have a presence, and supported local suppliers and contractors.

The Sustainability Report for 2017 was prepared in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and was reviewed by experts from both the Russian Union of Industrialists and Entrepreneurs and one of the world’s leading audit firms, KPMG.

Message from PJSC LUKOIL President and CEO

As head of the Company, I am convinced that it is only by maintaining a harmonious balance between economic, environmental, and social factors that we can truly ensure the harmonious development of our business.
LUKOIL is one of the world’s largest publicly traded, vertically integrated oil and gas companies in terms of total proved reserves and hydrocarbon production. LUKOIL employs over 100,000 people in Russia, Europe, Asia, Africa, and America (more than 30 countries in total).

We are an international oil and gas company whose operations promote the economic development of the countries in which we operate, which in turn raises people’s quality of life, and which seeks technological leadership and environmental equilibrium, so that we can all share in a prosperous future.
As a vertically integrated company, LUKOIL controls its entire chain of production – from oil and gas production to the marketing of a range of products supplied to industrial and retail consumers in various countries.

**EXPLORATION AND PRODUCTION**
- Exploration
- Development
- Production

- 75% Share of oil in proved reserves
- 25% Share of gas in proved reserves

**REFINING**
- Oil refining
- Gas refining
- Petrochemicals

- 8.8 The Nelson Index for company refineries as at 31 December 2017
- 86.8% Depth of processing

**MARKETING**
- Production and sale of oils
- Marketing of motor fuels
- River and maritime fueling
- Aircraft refueling

- 585 thousand t
  - Sales of LUKOIL brand oils
- 8.6 mln t
  - Sales of LUKOIL premium ECTO fuel
- 4.5 mln t
  - Sales of bunker fuel
- 3.2 mln t
  - Aircraft refueling
- 4,174 mln liters
  - Sales of biofuel blends

**ELECTRIC POWER ENGINEERING**
- Electricity generation
- Electricity generation from RES

- 1,053.2 mln kWh
  - Total electricity generated from RES
- 17,551.9 mln kWh
  - Total electricity generation (regardless of supply power generation)

> 30 countries

> 60 Russian regions

104 thousand employees

Average headcount

Around 1% of proved global hydrocarbon reserves

> 2% of total global oil production

15% of oil production and refining in Russia

> Not including mini refineries and external refineries, and also not including unused capacity at the Uktma Refinery.
Strategic Development Program

In December 2017 the PJSC LUKOIL Board of Directors approved the LUKOIL Group Budget’s key targets for 2018–2020 and LUKOIL Group’s Strategic Development Program for 2018–2027. These are aimed at achieving balanced development.

Improving sustainability

Over the past year, significant work has been done to update a number of in-house regulations, including the Social Code of PJSC LUKOIL, which now sets out the Company’s approach to respecting human rights. With the goal of improving the quality of management, changes were made to the approach to planning targeted corporate programs in health, safety, and the environment.

In the first international Corporate Human Rights Benchmark rating, LUKOIL ranked second among Russian companies and first in the Russian energy sector.

Four sustainability goals of the LUKOIL Group’s Strategic Development Program for 2018–2027

1. Industrial and environmental safety, reliability and efficiency of processes
2. Competitiveness
3. Return on equity, recovery of investments, and the continuous creation of shareholder value
4. Social responsibility, a worthy contribution to social development

Oil and gas exploration and production

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

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

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

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

We continued to actively implement projects to develop hard-to-recover reserves (high-viscosity oil in the Yarygalykoye field and Permian-Carboniferous deposit of the Usinskoye field in the Komi Republic). This year, record amounts of oil were produced at these fields: 13 million and 2.3 million tonnes, respectively.

Although there was a slight drop in total oil production in the year, under conditions of external limitations, gas production rose considerably (a 16% rise compared to 2016), as a result of the commencement of gas extraction at the Pyakyakhinskoye field and Permian-Carboniferous deposit of the Usinskoye field in the KomI Republic. This year, record amounts of oil were produced at these fields: 13 million and 2.3 million tonnes, respectively.

2. The “zero discharge” means that all the operational waste generated at the drilling rig except for water in the power units’ external cooling circuit is taken to offshore facilities where it is treated, neutralized, and recycled. This way the Company avoids marine environment pollution.
3. The Zero Routine Flaring by 2030 Initiative is a joint initiative between the United Nations and the World Bank to reduce the routine flaring and dispersal of associated gas during the production of hydrocarbons. The routine flaring and dispersal of associated petroleum gas is understood to mean a situation where volumes of produced associated petroleum gas exceed the requirements of the production entity in energy resources, and there are no technologies for their capture, utilization, or possible sale. Unlike the sporadic flaring and dispersal of associated petroleum gas (related to scheduled repairs, the maintenance and supersession of equipment, the testing and servicing of wells, troubles to the units of equipment, starting the engine of a compressor, the binding of pipelines, and other similar events), the routine flaring of associated petroleum gas can be reduced significantly if market participants coordinate their actions. The application of the best available technologies and improvements in the market mechanisms related to natural gas are the underlying approaches for achieving the objective within the framework of the initiative.
Refining, marketing, and distribution

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

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

In 2017 we achieved the highest level of marine fuel sales for five years, including environmentally friendly marine fuel sales.

As part of our strategy in this area, we are preparing to produce marine fuel with an even lower sulfur content (down to 0.5%) in order to ensure timely compliance with the requirements of the International Maritime Organization (IMO), pursuant to which such fuel must be in use from 2020.

At the end of 2017 our marketing network for motor fuels comprised 5,258 filling stations¹, 50% of which were located in Russia.

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

Despite external limitations on oil production as part of an agreement with OPEC, and increases in rates of excise and mineral extraction tax in Russia, LUKOIL achieved good financial results in 2017. Progress made during the reporting year was secured by increasing the share of high-margin projects in the structure of oil production, growth in gas production in Russia and Uzbekistan, an improved product output structure at refineries, and reduced costs.

Key indicators

<table>
<thead>
<tr>
<th>Key financial and production indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA, RUB billion</td>
<td>816.7</td>
<td>730.7</td>
<td>831.6</td>
</tr>
<tr>
<td>Total debt/EBITDA</td>
<td>11</td>
<td>10</td>
<td>0.7</td>
</tr>
<tr>
<td>Capital expenditure, RUB billion</td>
<td>606.0</td>
<td>4971</td>
<td>515.5</td>
</tr>
<tr>
<td>Adjusted net profit, RUB billion</td>
<td>363.5</td>
<td>303.8</td>
<td>399.4</td>
</tr>
<tr>
<td>Research and technical costs, RUB billion</td>
<td>5.5</td>
<td>5.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Number of patents received</td>
<td>20</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production of oil and gas condensate (including shares in affiliates), million barrels</td>
<td>736</td>
<td>676</td>
<td>645</td>
</tr>
<tr>
<td>Crude oil production (including share by equity affiliates), thousand tonnes</td>
<td>103,688</td>
<td>91,992</td>
<td>87,414</td>
</tr>
<tr>
<td>Gas production, billion cubic meters</td>
<td>23,966</td>
<td>24,922</td>
<td>28,861</td>
</tr>
<tr>
<td>including APG</td>
<td>8,378</td>
<td>9,277</td>
<td>8,942</td>
</tr>
<tr>
<td>Petroleum products output, thousand tonnes²</td>
<td>61,750</td>
<td>63,069</td>
<td>69,908</td>
</tr>
<tr>
<td>Full cycle lubricant production, thousand tonnes</td>
<td>812</td>
<td>917</td>
<td>998</td>
</tr>
<tr>
<td>Lubricant blending, thousand tonnes</td>
<td>117</td>
<td>118</td>
<td>128</td>
</tr>
<tr>
<td>Output of petrochemicals, thousand tonnes</td>
<td>1,074</td>
<td>1,270</td>
<td>1,271</td>
</tr>
</tbody>
</table>

Power generation and renewable energy

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

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

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

More complete information on the LUKOIL Group’s production and financial performance can be found in the 2017 Annual Report and The Facts Book and other materials.

ECONOMIC VALUE CREATED AND DISTRIBUTED, RUB million

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct economic value created</td>
<td>5,810,758</td>
<td>5,256,250</td>
</tr>
<tr>
<td>Revenue</td>
<td>5,749,050</td>
<td>5,227,045</td>
</tr>
<tr>
<td>Income from financial investments</td>
<td>17,763</td>
<td>14,756</td>
</tr>
<tr>
<td>Income from sale of material assets</td>
<td>43,945</td>
<td>14,449</td>
</tr>
<tr>
<td>Direct economic value distributed</td>
<td>(5,202,356)</td>
<td>(4,741,979)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(3,702,873)</td>
<td>(3,419,259)</td>
</tr>
<tr>
<td>Employee payroll</td>
<td>(126,506)</td>
<td>(156,035)</td>
</tr>
<tr>
<td>Other employee payments and benefits</td>
<td>(4,837)</td>
<td>(20,370)</td>
</tr>
<tr>
<td>Payments to providers of capital</td>
<td>(161,774)</td>
<td>(175,435)</td>
</tr>
<tr>
<td>including dividends paid</td>
<td>(15,106)</td>
<td>(33,728)</td>
</tr>
<tr>
<td>including interest paid to creditors</td>
<td>(46,641)</td>
<td>(44,707)</td>
</tr>
<tr>
<td>Payments to the government</td>
<td>(1,998,444)</td>
<td>(984,821)</td>
</tr>
<tr>
<td>Investments in society</td>
<td>(7,929)</td>
<td>(12,060)</td>
</tr>
<tr>
<td>Undistributed economic value</td>
<td>60,402</td>
<td>51,271</td>
</tr>
</tbody>
</table>

¹ At our own refineries, including Zelezno
² Fuel that meets MARPOL requirements (the International Convention for the Prevention of Pollution from Ships, 1973, as amended 1978, MARPOL, 73/78) regarding the content of pollutants in air emissions of combustion products in sulfur emission control areas (SECA) – the North Sea and Baltic Sea, and part of the US coast – as well as waterways of the European Union.
³ The Group's refineries, subsidiary refineries, and third party refineries (by Group share).
LUKOIL Group strategy for sustainability

In December 2017 the PJSC LUKOIL Board of Directors approved the LUKOIL Group’s Strategic Development Program for 2018–2027.

Our approach to sustainability management is based on seeking to align the interests and plans of the Company with UN fundamental principles, common human values, and global national and regional development trends and priorities. This involves the integration of economic, environmental, and social goals and objectives into the corporate business decision-making system.

Issues related to industrial, environmental, and personal safety remain unwavering priorities for LUKOIL at all stages of value creation.
Integration of the LUKOIL Group’s sustainability goals and strategy

In the process of creating the LUKOIL Group’s Strategic Development Program for 2018–2027, the core departments, with advisory support from members of the Board of Directors, determined the Company’s priority and equivalent goals and objectives related to sustainability. In this regard we took into consideration the global targets listed in the UN Agenda 2030, current oil and gas sector trends, and LUKOIL’s corporate culture.

I. Industrial and environmental safety, reliability and efficiency of processes

LUKOIL is one of the largest private international oil and gas companies whose shares are traded on stock exchanges. By extracting and refining natural resources, we help satisfy people’s needs for fuel, energy, and warmth. For us, however, attaining high production figures is inextricably linked to meeting the challenges of rational natural resource management. The sustainable development of FSCU LUKOIL is based on strict adherence to the legislative norms of the countries in which we operate.

We plan to expand our relations with stakeholders in order to promptly identify risks and to implement relevant measures to mitigate these risks. We consider the following to be the main risks: the risk of a change in statutory requirements on industrial safety and environmental protection, the risk of adverse impacts on the environment and people as a result of our production activity, the risk of disruptions to the work of production facilities due to the impact of climatic factors, the risk of depletion to the facilities due to the impact of climatic factors, the risk of depletion to the facilities due to the impact of climatic factors, the risk of depletion to the facilities due to the impact of climatic factors, the risk of depletion to the facilities due to the impact of climatic factors, the risk of depletion to the facilities due to the impact of climatic factors, the risk of depletion to the facilities due to the impact of climatic factors.

The main mechanisms for achieving this strategic goal and reducing risks are medium-term targeted programs in which target indicators are clearly outlined. The list of KPIs for incentives includes the integrated indicator “Ensuring the required level of support for health, safety, and the environment at LUKOIL Group subsidiaries.” In 2017, in order to increase responsibility for attaining this KPI at all management levels, amendments were made to a corresponding internal regulatory document. In particular, in the quarterly assessment we introduced more stringent criteria on aggregate material damages resulting from an accident, and also included a criterion for the absence of accidents.

II. Competitiveness

In a rapidly changing business environment, maintaining and improving the Company’s competitiveness is a fundamental prerequisite for success. We are committed to increasing the overall productivity of our operating activity and to achieving a more rational and efficient use of resources (natural, human, production, and financial).

Our goals:
- effective asset portfolio management
- boosting labor productivity and energy efficiency
- optimizing processes and costs
- developing technologies, including with a view to accelerating the extraction of hard-to-recover reserves
- maximizing the added value of our output

Our strategic priority includes continual efforts to boost efficiency and to reduce the unit consumption of natural resources, materials, and energy while at the same time achieving the maximum possible output of products, through investment in innovation and new technologies.

Potential risks include higher costs due to a failure to keep up with global technology trends and a change in the level of demand for our products.

The main mechanisms for achieving these strategic goal and reducing risks are the development and execution of targeted programs to improve efficiency, investment in research, and developing new products that meet mounting demands for fuel efficiency.

III. Social responsibility, a worthy contribution to social development

We are a major employer, taxpayer, product supplier, and consumer of goods and services. We take a very responsible attitude to our stakeholders, and carefully take their needs into account. We have a comprehensive social policy in place in relation to our workers, and make a significant contribution to improving the quality of life in the regions in which we operate.

Our goals:
- promoting productive employment
- supporting decent work and fair working conditions
- observing labor rights and human rights
- good-faith conduct of our business and zero tolerance towards corruption
- assisting in developing society and the regions in which we operate
- high-quality product standards

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The Company acknowledges its responsibility to all stakeholders in the countries and regions where it operates, pursuing a policy of social responsibility on issues related to labor, employment, and industrial relations; providing assistance to employees, disabled people, volunteers, and engaging in extensive charity and sponsorship work.

Main risks include a global trend towards changing requirements for professional competencies and skills related to the implementation of new technologies and management systems, changes to legislation and the conditions of doing business in the areas in which we operate, and increased competition for talent.

The main mechanisms for achieving this strategic goal and reducing risks are an effective human resources policy, training and skills development programs, social programs for employees, trade union agreements, collective agreements with employees, agreements with charities, programs for veterans; and engaging in extensive charity and sponsorship work.
Our unique competitive advantages form the foundation of this strategy: an extensive resource base, low production costs for traditional sources of energy, extensive experience in implementing large-scale projects, technical expertise, excellent refining efficiency, and a strong financial position.

Our goals:

- Stable and organic production growth based on efficiency and value creation
- Constantly improving efficiencies, maximizing free cash flow, and fostering the development of petrochemistry and gas chemistry
- Boosting the efficiency of the sales and marketing network and developing priority sales channels
- Growth in financial indicators and profit margins
- Adhering to a conservative financial policy

We believe that the principal risks are factors that may impede the successful implementation of our strategy. Achieving our strategic goals depends upon the successful implementation of our long-term strategy. Other important factors include employing best corporate practices and integrating the requirements of the investment community into the corporate system for managing sustainability.

In its operations LUKOIL adheres strictly to the principles of sustainable development and pursues goals that ensure a balance between socio-economic and environmental development.

IV. Return on equity, recovery of investments, and the continuous creation of shareholder value

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Monitoring and assessing operations

Monitoring the attainment of sustainability goals and targets on a day-to-day level is performed in the Head Office of PJSC LUKOIL by the directors of structural divisions; in LUKOIL Group subsidiaries, the heads of each Group subsidiary are responsible for sustainability performance.

Mrs. Toby T. Gati, member of the PJSC LUKOIL Board of Directors and Strategy and Investment Committee of the PJSC LUKOIL Board of Directors,

Working Group on preparing the Sustainability Report

In October 2017 a Working Group on preparing the Sustainability Report was created (the “Working Group”) with the aim of enhancing the system for collecting, preparing, and disclosing reporting information. The Group includes the heads of PJSC LUKOIL divisions. Issues related to improving the sustainability activity of the LUKOIL Group as a whole can also be considered by the Working Group.

The Company’s obligations on rights related to ensuring a favorable environment and occupational safety are set out in more detail in the HSE policy of PJSC LUKOIL in the 21st Century.

• The Company intends to make use of all available and practicable measures to prevent accidents, occupational diseases and operational stoppages, and to reduce their impact and consequences.

• LUKOIL achieves consistent, ongoing improvements from its current and planned activities, products, and services in terms of the impact on its employees, the general public, and the environment.

• Performing internal and independent audits in the respective lines of the business, including as part of supervisory audits of the management system’s compliance with international standards.

• Performing procedures to assess the environmental impacts of production projects.

• Feedback channels as part of the Company’s information policy.

The main mechanisms for monitoring compliance with human rights comprise:

• Monitoring compliance with legislative requirements.

HUMAN RIGHTS

As an international company that operates in countries with various political systems and cultural traditions, LUKOIL recognizes the importance of respecting and observing the fundamental human rights declared by the United Nations, including labor rights, the right to a healthy environment, and the rights of indigenous peoples and special groups and others.

In 2017 the corporate policy on human rights was consolidated in a new version of the Social Code of PJSC LUKOIL. This document is based, among other things, on the United Nations Global Compact Principles and sets out the Company’s position and voluntary undertakings:

• LUKOIL recognizes the importance of observing human rights, and undertakes in its activity to be guided by the provisions of the United Nations Universal Declaration of Human Rights.

• The Company seeks to uphold the fundamental principles in labor relations and environmental protection that are enshrined in the UN conventions and the International Labour Organization (ILO).

• LUKOIL respects the rights of trade unions, including rights enshrined in the basic ILO conventions:

— the right of every employee to be represented by a trade union of his/her choice and main trade union rights concerning freedom of association and the right to organize workers into trade unions, and also the right to collective bargaining— preventing all forms of involuntary or forced labor— the elimination of child labor— support for and ensuring equality of opportunity and relations to employees in employment, including equal pay for women and men for work of equal value, and preventing discrimination in labor and employment

The Social Code of PJSC LUKOIL also includes obligations on preserving the national cultural identities of peoples living in the regions where the Company operates.

The Social Code of PJSC LUKOIL, as well as the Antimonopoly Policy approved in 2015, set out the Company’s human rights activity is based, among other things, on the Universal Declaration of Human Rights, the right to a healthy environment, and the rights of indigenous peoples and special groups and others.

In 2017 work continued on implementing the provisions of the LUKOIL Group Antimonopoly Policy approved in 2015. The Russian subsidiaries of the Group have developed and adopted in-house regulations on antimonopoly compliance, and appointed individuals responsible for monitoring compliance with antitrust legislation. Work has been carried out to inform employees about the provisions of the LUKOIL Group Antimonopoly Policy and the need to adhere to these norms in their day-to-day activities. Monitoring this documentation with, as well as other in-house regulations aimed at preventing violations of antitrust legislation, is entrusted to the Working Group supporting relations of LUKOIL Group subsidiaries and the Federal Antimonopoly Service of the Russian Federation (FAS) and its regional authorities on issues concerning production and commercial activity.

In 2017 the number of violations of antitrust legislation by LUKOIL Group subsidiaries declined significantly, which was related to the consistent implementation of the LUKOIL Group Antimonopoly Policy, as well as the stabilization of law enforcement practice in this area in Russia.

Ethics and statutory compliance

In 2017 work continued on implementing the provisions of the LUKOIL Group Antimonopoly Policy approved in 2016. The Russian subsidiaries of the Group have developed and adopted in-house regulations on antimonopoly compliance, and appointed individuals responsible for monitoring compliance with antitrust legislation. Work has been carried out to inform employees about the provisions of the LUKOIL Group Antimonopoly Policy and the need to adhere to these norms in their day-to-day activities. Monitoring this documentation with, as well as other in-house regulations aimed at preventing violations of antitrust legislation, is entrusted to the Working Group supporting relations of LUKOIL Group subsidiaries and the Federal Antimonopoly Service of the Russian Federation (FAS) and its regional authorities on issues concerning production and commercial activity.

In 2017 the number of violations of antitrust legislation by LUKOIL Group subsidiaries declined significantly, which was related to the consistent implementation of the LUKOIL Group Antimonopoly Policy, as well as the stabilization of law enforcement practice in this area in Russia.

The main mechanisms for monitoring compliance with human rights comprise:

• Monitoring compliance with legislative requirements.

In accordance with the Code of Business Conduct and Ethics of PJSC LUKOIL, the main principles underpinning the business activity of a LUKOIL Group entity are zero tolerance towards corruption in any form or manifestation, and compliance with the antitrust legislation of the countries where the Group operates.

<table>
<thead>
<tr>
<th>COMPLIANCE WITH ANTIMONOPOLY LEGISLATION BY LUKOIL GROUP SUBSIDIARIES</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of completed cases of antitrust legislation violations</td>
<td>15</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Total monetary amount of material penalties for antitrust legislation violations, RUB million</td>
<td>14.30</td>
<td>0.70</td>
<td>1.10</td>
</tr>
</tbody>
</table>

Note. Administrative fines exceeding RUB 100,000 are considered to be material penalties. The total monetary amount of fines indicator reflects the number of cases completed in the corresponding reporting period, including those commenced in previous years. (The process of considering cases until the issuance of the final decision can take varying periods of time.)
Stakeholder engagement

In its operations LUKOIL engages with a wide range of organizations and private individuals (stakeholders), with whom the Company strives to establish successful long-term relationships, taking into account their expectations and positions on various issues. Key stakeholder engagement principles comprise:

- partnership with the state and society
- achieving long-term, sustainable, and efficient development
- transparency of operations and openness of information

STAKEHOLDER ENGAGEMENT 2017

<table>
<thead>
<tr>
<th>STAKEHOLDERS</th>
<th>EVENTS IN 2017</th>
<th>ISSUES RELATED TO PARTICIPATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and municipal legislative and executive authorities</td>
<td>Signing a Triilateral Agreement on Collaboration</td>
<td>Plan for measures to reduce negative environmental impacts in the Year of the Environment in Russia</td>
</tr>
<tr>
<td>The Ministry of Natural Resources and Environment of the Russian Federation</td>
<td>Preparing suggestions for drafts of industry guidelines on best available technologies</td>
<td></td>
</tr>
<tr>
<td>The Ministry of Energy of the Russian Federation</td>
<td>Participation on an ongoing basis as part of the Working Group on issues related to the technical regulation of oil and gas industry operations</td>
<td>Updating the existing regulatory framework with regard to technical regulations</td>
</tr>
<tr>
<td>The Ministry of Industry and Trade of the Russian Federation</td>
<td>Participation in working meetings and groups.</td>
<td>Developing technologies for working in the Russian Arctic. Preventing the illegal trade of products in the oil industry.</td>
</tr>
<tr>
<td>Federal Agency for Ethnic Affairs.</td>
<td>Signing a cooperation agreement in the area of the socioeconomic and cultural development of the indigenous peoples of the North living in regions where the Company operates.</td>
<td>Creating joint working bodies on issues related to the indigenous peoples of the North; developing programs to safeguard their rights.</td>
</tr>
<tr>
<td>The Presidential National Council for Professional Qualifications, the Ministry of Labor and Social Protection of the Russian Federation, the National Agency for Qualification Development</td>
<td>Participation in meetings and other events, submitting proposals.</td>
<td>Elaborating and implementing a system of professional standards.</td>
</tr>
<tr>
<td>Shareholders and investors</td>
<td>Trips to the V. Filanovsky field held by stakeholder representatives.</td>
<td>Quality of production assets.</td>
</tr>
<tr>
<td>Investment banks and ratings agencies</td>
<td>Meeting with senior executives of the Company in October 2017 in London to mark the 15th anniversary of the LSE listing. Teleconferences involving senior executives.</td>
<td>Improved interaction and the exchange of information.</td>
</tr>
<tr>
<td>All investment and financial organizations and individual investors</td>
<td>Transitioning, starting in 2017, to the annual release of a Sustainability Report, refining the reporting scope. Issuing press releases on the most salient sustainability related events. Increasing information on sustainability in public databases and specialized analytical reports.</td>
<td>The integrity and timeliness of non-financial reporting and sustainability data. The Company’s management system in this area.</td>
</tr>
</tbody>
</table>

Employees and trade unions

- Transitioning, starting in 2017, to the annual release of a Sustainability Report, refining the reporting scope. Issuing press releases on the most salient sustainability related events. Increasing information on sustainability in public databases and specialized analytical reports. |

These principles are set forth in the Social Code of JSC LUKOIL.

STAKEHOLDERS EVENTS IN 2017 ISSUES RELATED TO PARTICIPATION

<table>
<thead>
<tr>
<th>STAKEHOLDERS</th>
<th>EVENTS IN 2017</th>
<th>ISSUES RELATED TO PARTICIPATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>The International Labour Organization (ILO), representatives of governments, employers, and employees.</td>
<td>Registration in the 10th European regional meeting of the ILO. Participation in the third international conference on the training and development of local staff in international companies (Uzbekistan).</td>
<td>Recognition of fundamental labor principles and rights; the impact of the economy on the labor market and the position of hired laborers; and the migration of labor resources.</td>
</tr>
<tr>
<td>Local communities</td>
<td>Administration of Tyumen Region, enterprises of the region.</td>
<td>Signing a roadmap to implement the project “Expansion of the use of the products and technologies of the enterprises of Tyumen Region”. Participation at the 8th Tyumen Oil and Gas Forum.</td>
</tr>
<tr>
<td>International and national organizations</td>
<td>Participation in the work of the 16th session of the UN Permanent Forum on Indigenous Issues.</td>
<td>Experience in developing responsible relations with indigenous peoples of North in Russia.</td>
</tr>
<tr>
<td>Industry associations</td>
<td>Standing participation in the work of the interagency industry working group to combat the illegal sale of oil industry products of the Russian Union of Industrialists and Entrepreneurs (RUE).</td>
<td>Amendments to Technical Regulation TR TS 039/2011 &quot;On Requirements on Automotive Gasoline and Aviation Fuel, Diesel and Marine Fuel, Jet Engine Fuel, and Fuel Oil&quot;.</td>
</tr>
<tr>
<td>International environmental organizations, members of the State Duma of the Russian Federation and members of the European Parliament, oil and gas companies.</td>
<td>Roundtable “Modern Environmental Protection Approaches During the Development of Maritime Deposits in the Baltic Sea”.</td>
<td>Ensuring industrial and environmental safety during the development of maritime fields in the Baltic Region.</td>
</tr>
<tr>
<td>Heads of government, executive and legislative authorities, international public organizations</td>
<td>Introducing the Environmental Security Program in Norway, Uzbekistan, and Kazakhstan.</td>
<td>System for ensuring environmental security. Technologies for working safely on the continental shelf in an Arctic climate.</td>
</tr>
<tr>
<td>The Komi Republic Administration, environmental organizations, residents of the Shchelyabozh and Kushshor communities.</td>
<td>Joint meeting between LUKOIL President and CEO Vagit Alekperov and the Komi Republic Head Sergey Gapikov. Visits of representatives from Russian and international environmental organizations. Meetings with the residents of local communities.</td>
<td>Results of work to eliminate the consequences of an incident at the A. Abalakshin field.</td>
</tr>
</tbody>
</table>

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State and municipal legislative and executive authorities. LUKOIL engages actively with legislative and executive authorities of the Russian Federation at all levels. PJSC LUKOIL and LUKOIL Group entity experts take part on an ongoing basis in the drafting of laws and the actual effects of current statutes) and in the work of consultative groups and expert forums, discussing issues that are topical for the oil and gas industry of the Russian Federation.

Shareholders and investors. Our investors are Russian and foreign legal subsidiaries and individuals pursuing various investment strategies. We consider the following to be legal subsidiaries and individuals investors are Russian and foreign local communities.

Key international projects, programs, and initiatives in which the LUKOIL Group/PJSC LUKOIL participates

LUKOIL is also a participant, organizer, and sponsor of forums, single-topic conferences, roundtables, and other events. The Carbon Disclosure Project (CDP)

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

The Cooperation agreement for 2018–2020 between the International Labour Organization and PJSC LUKOIL

The European Business Network for Corporate Social Responsibility

The United Nations Global Compact

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

Supply chain

Each year LUKOIL purchases a large volume of goods, work and services, and does business with a large number of companies. The Company’s procurements help maintain and increase the number of jobs in various economic sectors, and ensure the mobility of financial capital, thus stimulating economic activity.

In 2017 the share of domestic suppliers of centralized material and technical resources purchased by the Russian subsidiaries of LUKOIL Group stood at 94%, in terms of both the number of suppliers and the total amount of purchases in Russia.

As a rule, goods, work and services are purchased through open tenders, with mandatory competitive public bidding for the subject of the tender. Suppliers of goods, work, and services are chosen in accordance with the Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Subsidiaries ("Regulations"). A contract is concluded with the organization that wins the tender, which together with applicable legislation serves as the basis for the further regulation of relations between both parties.

If the subject of the tender stipulates the need to review the health, safety, and environment management system of applicants, the experts of PJSC LUKOIL and its subsidiaries perform a comprehensive assessment, on the basis of the corporate document "Procedure for the Comprehensive Assessment of the Health, Safety, and Environment Management System of Contractors of LUKOIL Group" in accordance with the requirements of the regulations on the execution of works, purchase of goods and procurement of services.

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About the Company

Strategy for Sustainability

Climate Change

EP and OS

Personnel

Local Communities

LUKOIL GROUP SUSTAINABILITY REPORT 2017

LUKOIL GROUP SUSTAINABILITY REPORT 2017

LUKOIL GROUP SUSTAINABILITY REPORT 2017
for Assessing the Health, Safety, and Environment Management of Entities. Wishing to Participate in a Tender\(^2\). This procedure reviews the availability of required licenses, employees, with the necessary qualifications, and the technical capabilities and technologies of potential contractors. For certain types of purchasing, applicants undergo technical audits.

As part of tender procedures, applicants also provide information of a social nature, specifically on compliance with the working time standards of their employees, and on provision of housing and social services to employees.

If a comprehensive assessment determines any non-compliance with corporate requirements, suppliers are not admitted to the tender.

In 2017, reviews of the conditions of the health, safety, and environment system were performed on 2,227 tender participants (38% of the total number).

Under the terms of signed contracts, all suppliers and contractors accept an obligation to comply with the specifications, confirming their consent with a signature, and also to abide by the legislative and corporate standards set forth in the HSE policy of RUSC LUKOIL in the 21st Century and other corporate standards.

The Company continuously monitors the activity of contracting organizations for compliance with these requirements.

### Product quality assurance

LUKOIL Group subsidiaries sell an extensive range of products that are used in various industrial sectors and by vehicle owners in Russia, Europe, Asia, and America. Our priorities are oriented towards consumer expectations and to constantly improving our quality control management methods.

Certificates confirming that quality management systems comply with ISO 9001 standards are held by 10 organizations working in aircraft refueling, as well as by facilities that produce the oils and lubricants of LLK-International. In 2017, under the terms of signed contracts, all suppliers and contractors accept an obligation to comply with the specifications, confirming their consent with a signature, and also to abide by the legislative and corporate standards set forth in the HSE policy of RUSC LUKOIL in the 21st Century and other corporate standards.

### Ensuring the quality of motor fuels

We believe it is our duty to maintain at all stages, from production to consumer, the quality of our fuels at the standards prescribed by the technical regulations and standard production documents. In addition, the subsidiaries of the LUKOIL Group that supply petroleum products are governed by respective corporate standards and guidelines\(^2\).

Our goal is to ensure complete and timely monitoring of the release and acceptance of petroleum products on the Transneft and Russian Railways transport systems, and that they are properly received, stored, and sold at LUKOIL tank farms and filling stations. The main measures taken to achieve this include:

- creating a unified data system from the refinery to the tank farm, in order to reduce the number of stationary laboratories (pilot projects are already in place at LUKOIL-Volganefteprod and LUKOIL-Permnefteprod);
- participating in the work of government and industry organizations on issues related to petroleum product quality control (including a tracking system to prevent fraudulent transactions at pumps) and countermeasures against the distribution of counterfeit products (including such measures as turnover-based fines and public controls).

The corporate automated management system, which covers oil filling stations as well as the vast majority of tank farms in Russia (and is also installed at facilities in Serbia and Romania), features the electronic tracking of products from refinery to end user. The system is being further developed through the use of tanker trucks equipped with an automated management system called “Guaranteed Delivery of Petroleum Products”, which uses widespread application of multifunctional spectrometric analyzers, infrared-range quality indicators for petroleum products, and introducing reporting as part of the Business Intelligence approach\(^3\).

#### Biofuel blends\(^1\)

<table>
<thead>
<tr>
<th>Type of product</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium ECTO fuel, thousand tonnes</td>
<td>5,802</td>
<td>7,355</td>
<td>8,554</td>
</tr>
<tr>
<td>Bunker fuel, thousand tonnes</td>
<td>2,549</td>
<td>3,247</td>
<td>4,539</td>
</tr>
<tr>
<td>Aircraft refueling, thousand tonnes</td>
<td>2,875</td>
<td>2,747</td>
<td>3,234</td>
</tr>
<tr>
<td>Blended oils, thousand tonnes</td>
<td>444</td>
<td>616</td>
<td>585</td>
</tr>
<tr>
<td>Biofuel blend(^1), million liters</td>
<td>4,044.4</td>
<td>4,248.2</td>
<td>4,174.0</td>
</tr>
</tbody>
</table>

#### Ensuring the quality of oils and lubricants

A key element within the lubricant quality control system is the regular audit of LUKOIL refineries by clients which are leading automobile manufacturers (for example General Motors, Ford, Volkswagen, and Renault-Nissan), during which assessments are made of the quality of products as well as the efficiency of production processes. All suppliers of raw materials and consumables have to undergo a precise assessment in accordance with applicable corporate standards\(^4\). A quality record sheet is created for each lot of finished product. Feedback on product quality is received from dealers, consumer services, and the commercial unit. Data is analyzed at monthly Quality Day meetings, and is also recorded in summary analysis reports for the quality management system.

#### Breakdown of LUKOIL Group filling stations by countries as of the end of 2017

<table>
<thead>
<tr>
<th>Region</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>2,609</td>
</tr>
<tr>
<td>Europe</td>
<td>2,555</td>
</tr>
<tr>
<td>Countries of the former Soviet Union</td>
<td>247</td>
</tr>
<tr>
<td>The USA</td>
<td>247</td>
</tr>
</tbody>
</table>

Note: Data include information on stations owned by the LUKOIL Group, leased stations, and franchised stations, as well as on filling stations multibanked and transferred under leases (accumulation as of 31 December 2017).

The main mechanisms used to engage with consumers comprise: the LICARD Unified hotline, the Secret Customer program, Event Monitoring software (CMS), and an analytical extension for the Petrovis CMS called “Monitoring the Work of Filling Stations and Tank Farms” (at LUKOIL-Tsentrfuelprodukt). We also analyze the results of inspections by state and municipal authorities, as well as LUKOIL’s internal audit function.

The following methods are used to improve the quality of services at filling stations:

- implementing targeted programs, such as the Renovation program for filling stations on federal highways and in regional centers, 2017–2020;
- the transitioning of oil supply companies to responsible maintenance of facilities.

### About the Company

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LUKOIL GROUP SUSTAINABILITY REPORT 2017

<table>
<thead>
<tr>
<th>Local Communities</th>
<th>EP and OS</th>
<th>Personnel</th>
</tr>
</thead>
</table>

1. Assuming an automotive gasoline density of 0.755 kg/l and diesel of 0.845 kg/l. Biofuel blends are understood to mean blends of motor gasoline and ethanol (up to 10%), or diesel fuel and the methyl ethers of fatty acids. These products are sold in European countries (Belgium, the Netherlands, Romania, Italy, Bulgaria, and Turkey).

2. For example, LUKOIL technical standard 124-2016 Motor Fuels, ECTO Automotive Fuel, the Methodological Guidelines on Maintaining the Quality of Petroleum Products during Reception, Storage and Release at LUKOIL-Undergroundprodukt.

3. Business Intelligence approach — a concept of working with information using automated tools, which is oriented towards achieving maximum efficiency of operations and a consistency in final processing and analysis results.

4. SP 44.11-2015 Assessment Procedure For Suppliers of Materials and Services.
Climate change

Target 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix.

Target 7.3. By 2030, double the global rate of improvement in energy efficiency.

Target 7.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Target 7.5. Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.

Target 13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

Target 13.2. Enhance the capacity for disaster risk reduction, including for early warning, disaster risk information and assessment.
Through their operations energy companies create significant amounts of greenhouse gas emissions, which can affect the climate and lead to the emergence of risks that are significant for a wide range of stakeholders. Climate change may present a threat to the lives and health of the people, flora, and fauna of the planet, and hence we share worldwide concerns over this topic.

LUKOIL is making concerted efforts to more accurately determine the scale of Group entities’ impacts on the climate, to create long-term goals to mitigate impacts, and to assess the amount of investment needed to attain these goals.

**Climate-related risks**

- Risks associated with climate change are gaining increasing attention, both from governments and the investment and financial communities.
- Systemic climate-related risks include physical damage to production assets as a result of severe weather problems or natural disasters; transition risks (in the transition to a low-carbon economy); risks associated with a reduction in demand for traditional products, as well as legal and regulatory risks, etc.

The connection between global warming and greenhouse gas emissions is still a topic of discussion within the scientific community, but most global initiatives (including UN initiatives and programs) are based on the conclusion from scientific studies that global warming is tied to industrialization and growth in industrial production. European Union countries have set a goal to reduce greenhouse gas emissions by at least 20% by 2020, chiefly by transitioning from fossil fuels to renewable sources of energy.

LUKOIL takes climate change risks into account when determining the Integrated Scenario Conditions (ISC), which are used to develop its strategy, assess investment projects, and create annual and medium-term plans. The ISC baseline factors in the impacts of Paris Agreement goals on the global balance of primary energy consumption. The fuel efficiency of cars is expected to rise in the largest economies over the medium term, electric and natural gas vehicles will come more to the fore, and the use of renewable energy sources will continue to grow. In order to assess risks and to test the sustainability of the Company’s strategy, we also developed a scenario which envisages an accelerated reduction in the consumption of hydrocarbons in the transportation sector.

We monitor and analyze business trends related to climate change, and implement programs and projects to reduce the LUKOIL Group’s greenhouse gas emissions wherever possible. There are dedicated programs in place to reduce the flaring of associated petroleum gas (APG), to develop green energy based on renewable energy sources, and to improve overall energy efficiency. We believe that effecting general improvements to business processes and making timely adjustments to the consumer basket and staying abreast of changes in the operational environment are equally important tasks. Looking ahead to the wider use of electric cars, we are installing charging stations at our filling stations and have signed a partnership agreement with Gazprom on expanding the use of natural gas vehicle (NGV) fuel.

**Impact assessment**

The concept underlying the system for monitoring, reporting, and verifying the volume of greenhouse gas emissions in the Russian Federation involves the implementation of standardized calculation methods. LUKOIL plays an active role in shaping the statutory and regulatory framework in this area, puts forward suggestions, and discusses and assesses the current methodologies being developed.

At the same time, we are making improvements to the corporate system for tracking and managing greenhouse gas emissions. This issue is closely scrutinized by corporate governance bodies.

In 2016 calculations of direct (Scope 1) greenhouse gas emissions were made using the methodology of The Ministry of Natural Resources and Environment of the Russian Federation.

**SPECIFIC DIRECT (SCOPE 1) GREENHOUSE GAS EMISSIONS BY RUSSIAN SUBSIDIARIES OF LUKOIL GROUP**

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LUKOIL Group subsidiaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LUKOIL Neftekhim Burgas AD (Bulgaria)</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>ISABI (Italy)</td>
<td>4.4</td>
<td>4.0</td>
</tr>
<tr>
<td>PETROTEL-LUKOIL S.A (Romania)</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Total for foreign oil refineries</td>
<td>6.7</td>
<td>6.5</td>
</tr>
</tbody>
</table>

In the past four years LUKOIL has participated in the international Carbon Disclosure Project (CDP), gradually expanding the list of information provided as the corporate system for recording greenhouse gas emissions improves.

**LUKOIL GROUP SUSTAINABILITY REPORT 2017**
Utilization of associated petroleum gas

APG utilization and achieving a reduction in its flaring are priority areas of our environmental policy. Significant investments have been made to resolve this issue as part of the Group’s Efficient APG Use Program.

In 2017, over RUB 15 billion was allocated to the construction and renovation of APG treatment, transport, and refining facilities and for generating electricity and heat in Russia (2016: RUB 24.2 billion). In 2017, the program’s most capital-intensive measures were in their final stages.

In 2017, the commissioning of 17 facilities was performed as a part of the Group’s Efficient APG Use Program for 2017–2019, including the renovation of the UsinskGas Processing Plant and the commissioning of the Yenega power generating center in the Komi Republic.

The Group’s Efficient APG Use Program for 2018-2020 was approved in 2017. A number of measures are planned under this program, including the refurbishment of the Kokuy Gas Compressor Station and the construction of a power generation center at the Chakhalskoye field (LUKOIL-FERM), the technical retrofitting of the compressor station at the Yu. Korchagin field (LUKOIL-Nizhnevolzhskneftegaz) and the construction of a multiphase pump station (MPS) at the A. Alabushin field and thermal power plants at the Urinskoye field (LUKOIL-Komi).

The program covers a three-year period, and will be updated annually. The effectiveness of the measures taken is assessed through internal and external audits. Plans are revised based on the results of analyzing performance targets achieved.

In line with its RES policy, LUKOIL commissioned a 10-MW photovoltaic power station ("solar park") in January 2018 at the oil refinery in Volgograd, which resulted in a doubling of the installed capacity of the Company’s solar power facilities. The Industry Program for Developing the Power Engineering Business Sector for 2018-2027 includes proposals on the construction of new solar parks on unused sites at oil refineries in Saratov and Volgograd. Wind farm construction projects may also be considered in the future. The appearance of localized facilities for the production of major equipment in Russia will enable us to play a more active role in RES projects.

In 2017, in terms of the development of hydroelectric power, measures have been taken to repair and upgrade equipment, optimize operating practices, and improve the reliability of LUKOIL-Ekokeroenga power plants. One of the most important projects in this regard is the refurbishment of the Belorechensk Hydroelectric Station. The complete replacement of hydroelectric units No. 1 and No. 3, with a rise in installed capacity from 16- to 24-MW each, will make it possible to extend the service life of the hydroelectric station by at least 40 years and to improve the cost-efficiency and reliability indicators of electricity generation.

To develop alternative energy sources in Russia, and to ensure that the industry can benefit from human resources with the required level of qualifications, LUKOIL assisted in setting up a specialized renewable energy sources department at Gubkin Russian State Oil & Gas University.

Investments in renewable energy

"Today, LUKOIL is a standard bearer for oil industry enterprises in the Volgograd Region when it comes to resolving environmental issues.”

A. BOCHAROV,
Volgograd Region Governor

For more than 10 years we have been developing state-of-the-art generation technology based on renewable energy sources (RES). Our projects promote reduced consumption of non-renewable types of fuel, thereby decreasing the level of greenhouse gas emissions. We analyze previously gained experience and widen its application in countries that support such projects at a national level.

The LUKOIL Group’s RES goals are: business diversification through implementing projects using the state support system for renewable energy in Russia (a mechanism for concluding capacity supply agreements with a guaranteed return on investment); preventing greenhouse gas emissions from power generation facilities; keeping up with global RES trends.

The program covers a three-year period, and will be updated annually. The effectiveness of the measures taken is assessed through internal and external audits. Plans are revised based on the results of analyzing performance targets achieved.

In line with its RES policy, LUKOIL commissioned a 10-MW photovoltaic power station (“solar park”) in January 2018 at the oil refinery in Volgograd, which resulted in a doubling of the installed capacity of the Company’s solar power facilities. The Industry Program for Developing the Power Engineering Business Sector for 2018-2027 includes proposals on the construction of new solar parks on unused sites at oil refineries in Saratov and Volgograd. Wind farm construction projects may also be considered in the future. The appearance of localized facilities for the production of major equipment in Russia will enable us to play a more active role in RES projects.

In 2017, in terms of the development of hydroelectric power, measures have been taken to repair and upgrade equipment, optimize operating practices, and improve the reliability of LUKOIL-Ekokeroenga power plants. One of the most important projects in this regard is the refurbishment of the Belorechensk Hydroelectric Station. The complete replacement of hydroelectric units No. 1 and No. 3, with a rise in installed capacity from 16- to 24-MW each, will make it possible to extend the service life of the hydroelectric station by at least 40 years and to improve the cost-efficiency and reliability indicators of electricity generation.

To develop alternative energy sources in Russia, and to ensure that the industry can benefit from human resources with the required level of qualifications, LUKOIL assisted in setting up a specialized renewable energy sources department at Gubkin Russian State Oil & Gas University.
Energy efficiency and energy conservation

LUKOIL Group organizations have adopted an energy management system based on international standard ISO 50001:2011, and are elaborating and implementing measures to boost energy efficiency and energy conservation. In 2017 the energy management systems of 26 LUKOIL Group organizations had certificates on the ISO 50001 standard.

The energy conservation program benchmarks for LUKOIL Group subsidiaries in Russia up to 2020 comprise energy savings covering a total of three years (from 2018 to 2020), and consisting of:

- Electricity: about 280 million kWh
- Heat: about 330 thousand Gcal
- Boiler and furnace fuels: about 360 thousand tonnes of reference fuel

Program measures were performed in full in 2017, and planned consumption benchmarks and fuel and energy savings were met.

Energy saving technologies

The LUKOIL Science and Technology Complex develops technology and equipment that is designed to improve the energy efficiency of production processes. An example in this regard is the development of submersible brushless electric motors for oil production, which are capable of providing energy savings of up to 24%. The end-to-end cycle, from initial idea to serial production, took around 20 years.

The strategy for replacing asynchronous motors with brushless motors at oil production enterprises was approved in 2017, with respective oil production energy savings expected to exceed 10%. The equipment will be supplied not only to LUKOIL subsidiaries, but also to domestic and international markets.

Energy-efficient products

Increased energy efficiency requirements on the part of consumers and a reduction in emissions of pollutants and greenhouse gases have become noticeable trends on the fuels and lubricants market.

LUKOIL is constantly improving both its consumer basket and the formulae of its products. For example, the new product line including ECTO-100 motor oil and LUKOIL Genesys GlideTech synthetic motor oil has improved fuel efficiency characteristics: test results have shown that their use reduces fuel consumption, and, consequently, air emissions.

Electric car infrastructure

The wider use of electric vehicles is seen in various countries as a potential way of reducing greenhouse gas emissions and pollutants. LUKOIL has analyzed the potential of and limitations on expanding the infrastructure for electric cars, with due consideration of the experiences of developed countries in this regard, as well as the dynamics of the fleet of electric and hybrid cars used by consumers. Promising solutions have been identified, including converting filling stations into client-focused facilities. Options and conditions for installing charging stations at the Company’s filling stations have been considered, and the first projects are under way.

In 2016, in the Krasnogorsk District of the Moscow Region, a charging station was installed at a LUKOIL filling station integrated into the MOESK-EV network. Another project was implemented at a filling station in Krasnodar Krai. As of 2017, over 10 charging stations for electric cars had been installed at LUKOIL filling stations, with a number of similar projects in the pipeline for the Moscow Region, the Perm Territory, and the south of Russia.
Environmental protection and occupational safety

Target 6.3. By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.

Target 6.4. By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

Target 6.5. By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate.

Target 8.4. Improve progressively, through 2030, global resource efficiency in consumption and production and endeavor to decouple economic growth from environmental degradation.

Target 8.8. Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

Target 11.7. By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities.

Target 12.4. By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.

Target 12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

Target 14.1. By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.

Target 14.2. By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.

Target 15.1. By 2020, ensure the conservation, restoration, and sustainable use of terrestrial and inland freshwater ecosystems and their services.

Target 15.2. By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests, and substantially increase afforestation and reforestation globally.

Target 15.5. Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.

Target 6.3.

Target 8.4.

Target 8.8.

Target 11.7.

Target 12.4.

Target 12.5.

Target 14.1.

Target 14.2.

Target 15.1.

Target 15.2.

Target 15.5.
LUKOIL in the Year of the Environment in Russia

The Russian Federation declared 2017 the Year of the Environment. LUKOIL and its subsidiaries were actively involved in this initiative, and held more than 100 events in the federal districts of Russia in which our enterprises operate. Reflecting our active role, LUKOIL projects were given a special award by the Ministry of Natural Resources and Environment of the Russian Federation.

Key environmental protection measures plan

During preparations for and the implementation of the Year of the Environment, the Russian Government approved a National Plan of Key Environmental Protection Measures. A number of LUKOIL ideas were incorporated into this document and a trilateral Cooperation Agreement was signed as part of the Year of the Environment between the Ministry of Natural Resources and Environment of the Russian Federation, the Federal Supervisory Natural Resources Management Service, and LUKOIL. The Company performed all its agreed upon obligations in 2017.

- The Usa and Yarega power generating centers were built in the Komi Republic in accordance with legislative requirements.
- A training exercise was held to simulate oil spill response times in icy conditions in the area surrounding the Varandey Terminal.
- Trainings were held on the rescue of animals affected by oil spills.
- A project to introduce a marine environment quality management system at LUKOIL-Nizhnevolskneft deposits in the Caspian Sea for the period up to 2020 is being implemented; interim results were presented at the Caspian Day event in Astrakhan in August 2017.

Elimination of accumulated environmental damage in the Arctic

LUKOIL supported a campaign of the government of Yamal-Nenets Autonomous Area to rehabilitate the ecosystem of the Bely and Vilkitsky islands in the Kara Sea. Volunteers from Russia, Israel, and Bulgaria, including environmental scientists and LUKOIL representatives, cleaned up over two hectares of territory and did a stocktaking of dangerous waste and abandoned infrastructure assets. More than 100 soil, water, and vegetation samples were taken for further analysis, and two types of native grass were planted on a trial basis. The Company will provide support for another expedition of scientists and volunteers to the islands in 2018 to continue cleaning up the territory and to carry out scientific research into the local ecosystem.
### Planting of trees

**By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities.**

In Sochi, young professionals from LUKOIL Group subsidiaries and students from the Sirius Educational Center planted olive trees in the Natural Ornithological Park in the Imereti region. Urban greening and the greening of LUKOIL Group subsidiaries’ industrial sites are performed annually in all the areas where we operate. Voluntary Saturday clean-ups and environmental campaigns are held jointly with regional and local authorities and public and youth organizations.

#### Regional projects

Regional organizations engaged in improving the natural terrain (rivers, streams, springs, etc.) and land plots receive annual support through the Competition of Social and Cultural Projects. The following projects were supported during the Year of the Environment:

- A drop of water is more valuable than a diamond (the cleaning of Olga’s Spring in Starotimoshkino village) and “Forgive us, Prost, we have returned to you again” (beautification of the banks of the Prost River). Both projects were performed in the Republic of Bashkortostan.
- Information databank of environmental problems: creation of a website where information on unauthorized landfill sites and the pollution of water bodies and parks can be posted (Samara Region).
- Energy of the Deep: the opening of an exhibition in the World Ocean Museum that acquaints visitors with offshore oil production and related environmental topics (Kalinigrad Region).

### Improving the management system

The integrated corporate Health, Safety, and the Environment Management System was drafted based on the ISO 14001 and OHSAS 18001 international standards, as well as Russian law requirements and the regulations of the countries where LUKOIL Group subsidiaries operate. Compliance of the LUKOIL management system and 46 of its subsidiaries (covering 79.3% of average headcount during 2017) with these standards was confirmed in 2017, based on the results of an independent audit.

### Annual improvements are made to the integrated HSE Management System, which make it possible to raise the level of occupational and environmental safety. New tools began to be used at the Company in 2017, including leading safety visits with the participation of top management, the holding of Safety Days, and the implementation of cooperative plans with key contractors.

### Improving management quality

In 2017, three-year targeted programs were developed, in line with decisions taken to align the planning of activities related to health, safety, and the environment with corporate medium-term planning procedures.

#### Targeted programs


The contents of the Environmental Safety Program (“ESP”) of LUKOIL Group Subsidiaries for 2018-2020 were substantially expanded: the document now contains over 900 initiatives to be performed at 53 subsidiaries (the previous program comprised about 600 initiatives at 44 subsidiaries).

HSE-related environmental aspects and risks by line of business and target indicators were updated when drafting the program. Amendments were made to the regulation to assess the key performance indicator “Ensuring the Required Level of Health, Safety, and the Environment at LUKOIL Group Subsidiaries”, in order to increase accountability for its performance at all management levels (the criteria of total material damage because of an accident have been made more stringent; criterion for the absence of accidents has also been included).

### ENVIRONMENTAL PROTECTION COSTS IN RUSSIA, RUB million

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total costs, including</td>
<td>48,161</td>
<td>53,286</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>22,564</td>
<td>30,854</td>
</tr>
</tbody>
</table>

Note: Data include expenses related to the Group’s Efficient APG Use Program. Costs related to the Environmental Safety Program of LUKOIL Group Subsidiaries for the relevant period include: waste removal and disposal, purification of emissions and discharges, environmental production controls and monitoring environmental components, biodiversity conservation, pollution clean-ups, and readiness to respond to emergencies and minimizing the risk of such emergencies arising (total operating and capital expenditure).
Environmental safety program

In 2017 the execution of the targeted Environmental Safety Program of LUKOIL Group Subsidiaries for 2014–2018 continued. After its consideration by the Health, Safety, and Environment Committee of PJSC LUKOIL, it was concluded that it was successfully implemented.

![Environmental Safety Program Implementation Results, 2014–2017](https://example.com/lukoil-environmental-safety-program)

### Target 8.4.
**Improve progressively, through 2030, global resource efficiency in consumption and production and endeavor to decouple economic growth from environmental degradation.**

![LUKOIL’s Water Consumption Targets](https://example.com/lukoil-water-consumption-targets)

#### Target 6.3.
**By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.**

#### Target 6.4.
**By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.**

#### Target 6.5.
**By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate.**

### Water consumption

Despite the wide availability of water in Russia and the less pronounced impact of the oil and gas industry on the consumption of freshwater than other sectors of the economy, improving the efficiency of water use and maintaining clean surface water and groundwater are very important objectives of the Company.

The HSE Policy of PJSC LUKOIL in the 21st Century contains obligations on the efficient use of natural resources, including water, and is aimed at:

- minimising the consequences of business activity, including a reduction in the use of water resources;
- reducing production dependence on possible adverse external factors, including natural ones (droughts, the drying up of water bodies, pollution of groundwater sources);
- the bulk of LUKOIL Group’s production activity in Russia is performed in regions that do not now experience fresh water shortages. However, in other countries we factor in such potential risks as a shortage of drinking water, as well as possible droughts or floods, which could lead to water supply interruptions, a breakdown in the supply chain, and increased operating costs.

Prompt risk identification enables us to take corresponding measures (to install modern equipment, including that which reduces water use) to facilitate more efficient water use. Our basic approach to resolving the issue of sustainable use is to introduce systems for reverse water supply and the reuse of water at production enterprises and make the optimal utilization of water intake, including of field water. New production facilities are equipped in all cases with systems for reverse water supply and the reuse of water and treatment facilities.

#### VOLUMES OF REVERSE WATER SUPPLY AND REUSED WATER AT LUKOIL GROUP SUBSIDIARIES IN RUSSIA, million cubic meters

<table>
<thead>
<tr>
<th>Year</th>
<th>Reverse water supply</th>
<th>Reused water</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2,287.8</td>
<td>908</td>
</tr>
<tr>
<td>2016</td>
<td>2,371.9</td>
<td>930.6</td>
</tr>
<tr>
<td>2017</td>
<td>2,539.1</td>
<td>875.5</td>
</tr>
</tbody>
</table>

Comment. The full text of the document can be found on the Company’s website.
DISPOSAL OF FORMATION WATER IN UZBEKISTAN

LUKOIL Uzbekistan Operating Company LLC adopted a strategy for the disposal of formation water at all gas production sites, by pumping it back into the formation. The company was the first in Uzbekistan to be issued a license to use subsoil to pump field wastewater into absorbing wells at fields. Under the terms of the licenses, field infrastructure for the complex of injection and monitoring wells must be developed at producing fields.

In 2016-2017 four injection wells were built at the Northern Shady, Kuvachi-Alat, and Kandym fields, as well as two monitoring wells in each area. The wells were successfully commissioned at Northern Shady and Kuvachi-Alat, and at Kandym the wells will begin to operate in conjunction with a gas refinery.

These projects allowed LUKOIL to move away from the surface disposal of field wastewater, significantly reduce emissions of pollutants into the atmosphere, improve air quality in the working areas of the treatment facilities, and minimize risks of environmental pollution during the discharge of industrial effluent.
Managing environmental impacts

**Target 12.4.**
By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.

**Target 12.5.**
By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

### Air emissions

Key measures to reduce emissions of pollutants comprise:
- the renovation and construction of new generating capacities at electric power engineering subsidiaries, with improved automated systems for controlling fuel consumption processes and heat losses and minimizing emissions of pollutants
- replacing or upgrading equipment at industrial sites according to the principle of best available technology
- improving the technology used in systems to capture and treat pollutant emissions

The reduction in specific emissions of pollutants by electric power engineering subsidiaries in 2017 was primarily due to a reduction in the share of fuel oil in the fuel mix at the steam and heat generation facilities of LUKOIL-Volgogorodenergo. The slight increase in specific emissions in 2017 by petrochemical subsidiaries was due to a reduction in product output from Stavrolen.

#### TOTAL AIR EMISSIONS OF POLLUTANTS BY LUKOIL GROUP SUBSIDIARIES IN RUSSIA, thousand tonnes

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOx emissions</td>
<td>38.9</td>
<td>44.0</td>
</tr>
<tr>
<td>SO2 emissions</td>
<td>58.2</td>
<td>59.7</td>
</tr>
<tr>
<td>solid emissions</td>
<td>26.4</td>
<td>26.9</td>
</tr>
<tr>
<td>CO emissions</td>
<td>232.0</td>
<td>295.9</td>
</tr>
<tr>
<td>hydrocarbon emissions (net of methane)</td>
<td>184.7</td>
<td>199.2</td>
</tr>
<tr>
<td>other pollutants</td>
<td>27.8</td>
<td>18.0</td>
</tr>
</tbody>
</table>

#### SPECIFIC AIR EMISSIONS OF POLLUTANTS BY LUKOIL GROUP SUBSIDIARIES IN RUSSIA

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and Gas Production, kg/tonnes of reference fuel of produced hydrocarbons</td>
<td>4.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Oil Refining, kg/tonnes of refined oil</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Petrochemicals, kg/tonnes of processed raw stock</td>
<td>2.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Product Marketing and Distribution, kg/tonnes of sold petroleum products</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Midstream, kg/tonnes of transported oil and petroleum products</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Electric Power Engineering, kg/tonnes of reference fuel consumed</td>
<td>2.9</td>
<td>3.7</td>
</tr>
</tbody>
</table>
Waste

Most production waste is generated during well drilling and operation, and its respective level depends primarily on the volume of drilling work. The main types of waste are drilling mud and waste drilling fluids, which under environmental hazard classification criteria belong to the hazard classes IV (low hazard) and V (non-hazardous), and are subject to disposal. The total amount of waste generated in 2017 stood at 1,434.0 thousand tonnes, of which 1,297.3 thousand tonnes (90.5%) constituted hazard class IV and V waste.

In 2015–2017 the Company made the transition to the concept of pit-free drilling, whereby drilling waste generated is not stored on drilling platforms, but is instead allocated for use or decontamination. Consequently, the volume of waste generated during the year is compatible with the total volume of waste used, decontaminated, and transferred to third-party organizations.

The increase in generated waste in 2017 (by 38.8%) was attributable to a rise in volumes of drilling work (including horizontal well drilling, which requires drilling fluid to be replaced more frequently), the application of new regulations for accounting for drilling waste at LUKOIL-Western Siberia, and also significant volumes of disassembling and construction work carried out at LUKOIL-Nizhnegorodnefteorgsintez and an increase in the sale of non-fuel goods (packaging and other household waste) in cafes and stores located at filling stations.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Type of waste</th>
<th>Waste-handling technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production of crude oil and natural gas</td>
<td>Drilling waste</td>
<td>Waste is recycled by dedicated contracting organizations.</td>
</tr>
<tr>
<td>Rocky material produced during underground mining</td>
<td>Oil-contaminated waste</td>
<td>Oil-contaminated waste at oil and gas production subsidiaries primarily comprises oil-contaminated soil and sludge from tank and pipeline purging operations. LUKOIL uses tried-and-tested disposal (microbiological destruction) and decontamination (thermal treatment) techniques.</td>
</tr>
<tr>
<td>Oil and gas refining</td>
<td>Oil-contaminated waste</td>
<td>Oil-contaminated waste at oil and gas refineries mainly comprises sludge from tank and pipeline purging operations, oil products entrapped in process water, etc. Disposal methods include stop oil being fed back into the technological process, and sludge being decontaminated at dedicated processing facilities.</td>
</tr>
<tr>
<td>Silt from biological treatment facilities</td>
<td>Forms during the treatment process that removes organic compounds from water used for production and service water. Excessive biostim is regularly removed from treatment facilities, then dried, and sometimes used in other operations (for example as fertilizer).</td>
<td></td>
</tr>
<tr>
<td>Production and distribution of electricity, gas, and water</td>
<td>Sludge produced during the chemical treatment of water</td>
<td>This waste is deposited in landfills.</td>
</tr>
</tbody>
</table>

The Company disposes waste accumulated in the pre-privatization period at LUKOIL Group subsidiaries in Russia from its own funds. Measures taken in 2017 allowed us to reduce the total amount of such waste by 411 thousand tonnes compared to 2016 (to 304.5 thousand tonnes as at 31 December 2017).

We pay close scrutiny to the quality of waste disposal work performed by contractors, and monitor their activities under the contracts concluded. We check waste-handling techniques, the condition of the production control system, and ensure that sufficient resources are available to perform contractual obligations. Cooperation between subsidiaries and contractors to improve the quality of their output is constantly expanding.
Biodiversity conservation

Maintaining natural ecosystems and biodiversity has significant economic, environmental, and social importance, ensures a productive habitat, and is an important aspect in human health. Our goal is to conserve the diversity of natural biosystems in the areas where the Company operates, and to use them in a way that does not threaten their capacity for self-regeneration.

Target 14.1.
By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.

Target 14.2.
By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.

Target 15.1.
By 2020, ensure the conservation, restoration, and sustainable use of terrestrial and inland freshwater ecosystems and their services.

Target 15.2.
By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests, and substantially increase afforestation and reforestation globally.

Target 15.5.
Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.

Principles and methods of activity

Our activity to preserve biodiversity is performed based on the principle “prevent – reduce – rehabilitate compensate”, which is applied at all stages of the life cycle of oil and gas production projects. At the early stages, an environmental impact assessment (EIA) of the planned projects is performed, during which background information is collected on the condition of the ecosystem on the territory of the projected activity (including the condition of valuable and protected flora and fauna). The data received are considered when selecting the site for production facilities, and if necessary alternative project implementation scenarios are considered. The risk of damaging biodiversity is assessed, as are the forecasted environmental and related social and economic ramifications of this damage.

At the operating stage we take measures to reduce and mitigate the impact of production hazards and risks, including measures to prevent the introduction of invasive species. The measures being taken and the action plans are adjusted based on an assessment of environmental monitoring results. We pay special attention to our emergency response readiness and our ability to liquidate potential impacts and to save animals, birds, and plants.

Environmental monitoring

The company uses advanced technologies to ensure environmental safety, investing significant funds in this objective. The integrated industrial environmental control system (IEC) is in place at its offshore facilities helps assess environmental impacts in a timely manner. The innovative quality of the IEC observatory, there have been no instances of Company facilities having a material impact on the marine environment and eliciting a response.

The results of environmental monitoring at offshore facilities have been published annually on our website since 2010. During our 12 years of observation, there have been no instances of Company facilities having a material impact on the marine environment and eliciting a response.

Research and development work

The Research and Development Program is aimed, among other things, at studying the biological diversity of ecosystems and reducing the impact of production.

Training to rescue animals
LUKOIL applies and passes on biodiversity conservation best practices.

For example, in 2017 research was carried out into lacustrine-boggy landscapes in petroleum provinces in the sub-Arctic and Arctic Zones of Russia. The development of technologies and equipment to remove oil and petroleum products from bodies of water also continued.

A corporate procedure has been developed to facilitate the prompt interpretation of environmental monitoring results. For example, the system for assessing the intensity of impacts of oil production on the marine environment is reflected in the LUKOIL-Nizhnevолжskhе corporate standard regarding the organization of environmental monitoring using sea-floor monitors and the identification of sources of hydrocarbon pollution in the Caspian sea basin during the development of oil and gas fields.
Replenishment of marine biological resources

As part of the implementation of its environmental program, LUKOIL performs wide-ranging work to replenish fish stocks. In 2017, around 95.7 million fingerlings of valuable species of fish (including sturgeon, walleyes, starlet, and pike) were released into rivers and other bodies of water in the regions where the Company operates.

The most intensive work to artificially stock bodies of water is being performed in the Khanty-Mansi Autonomous Area—Yugra, the Komi Republic, the Perm Territory, and the Astrakhan Region. A total of RUB 280.2 million was spent replenishing fish stocks in 2017.

We believe the implementation of LUKOIL’s program to conserve biodiversity and local ecosystems has made a significant contribution to increasing fish numbers in local bodies of water.

Equally important is the work done to restore the populations of valuable marine species, including birch and Crimean pine, as well as rose bushes and various types of juniper bushes.

Yugra, the Komi Republic, the Perm Territory, and the Astrakhan Region. A total of RUB 280.2 million was spent replenishing fish stocks in 2017.

We believe the implementation of LUKOIL’s program to conserve biodiversity and local ecosystems has made a significant contribution to increasing fish numbers in local bodies of water.

Improving the reliability of pipeline transport

LUKOIL operates a well-developed pipeline system that comprises the most extensive system of offshore pipelines among Russian oil and gas companies. Efforts to ensure the reliability of the pipeline transport system are comprehensive and multifaceted in nature: we record all breakdowns in the integrity of the pipelines, analyze the reasons, and search for solutions that will ensure reliable and safe operation in the future.

Leveraging our extensive experience in operating pipeline transport in different geological and weather conditions, we select the optimum engineering solutions and apply the most tried-and-trusted methods.

Key measures to renovate and overhaul pipelines are planned as part of LUKOIL’s investment program, with the investment cycle lasting at least 2.5 years.

Our goal is to further improve industrial quality controls, including monitoring the actions of contractors in performing responsible technological processes at wells.

Pipelines with anticorrosion performance were increased from 23.6% of the total in 2016 to 25.2% in 2017 (from 10,726 km to 11,756 km, respectively).

Environmental education for schoolchildren

We continue to support the largest environmental education program in Romania, EcoAltitudine. In 2017, around 95,000 students from 230 schools took part in program-related events. In Romania we also support the “Think Green, Think Clean” program of the Environmental Protection Agency of Prahova County: a summer “environmental school” has been organized for schoolchildren, with classes held in a local park.

In 2017 workers of the refinery in Bulgaria (LUKOIL Neftochim Burgas AD) held lessons for students of three schools in the city of Burgas. They discussed human impacts on wildlife and our responsibility to preserve wildlife and the environment for future generations.
Implementation of the program to increase the reliability of pipelines in the Komi Republic

Increasing the reliability of the pipeline system in the Komi Republic is one of the Company’s priorities. The replacement of pipelines in the region has increased substantially over the past three years: in 2017 this indicator exceeded the Company average by 1.3 times (in 2017, 3.6% of the total length of pipelines).

The Komi Republic is distinguished by having a combination of unique factors not present in any other oil and gas province in Russia which significantly affect the construction and operation of pipelines. Soil composition, the low load-bearing ability of the soil, and the formation conditions of the field all contribute to creating a highly corrosive environment (the rate of metal corrosion can reach 22 mm/year). Hence LUKOIL must, on the one hand, apply three times more corrosion inhibitor to protect pipes than in other regions (31% in Komi, 10% in other Russian regions), and, on the other, find technologies that will help extend the accident-free work of pipeline transport.

Steel pipes with internal and external anticorrosion coating are used effectively in this region. Every year when steel pipes are replaced, this type of pipe accounts for a much greater share of the total in Komi than the average for the Company. Their length equaled 1,100 km in 2016 and 1,335 km in 2017.

In 2017 we began the full upgrade of the 33 km Makariel-Shchelyayur pipeline, including the replacement of a section passing through the Pechora River (Izhma District). The completion of the project is scheduled for 2018.

The overall results of activities to increase the reliability of pipelines in the Komi Republic in 2017 compared to 2016 are as follows:

• an increase in the length of pipelines with corrosion inhibitors from 2,198 km to 2,282 km, representing over 30% of the total length of the Komi Republic pipeline system
• a rise in the total replacement of pipelines to 269 km (3.6% of the total length of pipelines)
• technical diagnostics being expanded to 1,768 km of pipelines

The Komi Republic is protected against corrosion.

269 km of pipelines replaced
Study of global best practice

In 2017 a meeting was held between LUKOIL specialists and the specialists of leading oil and gas companies and engineering centers in China and the USA to study the equipment used in offshore production and repair technologies of underwater pipelines, and also methods to increase the reliability of oil pipeline operations in harmful environmental conditions. Based on the results of visits and existing technical and regulatory documentation on the operation of oil and gas field equipment and pipelines, a new corporate standard on corrosion protection was drafted, with implementation expected to begin at LUKOIL-Komi. After testing, the standard will be applied at all the Company’s oil production subsidiaries.

Participation in the legislative process

LUKOIL professionals play a proactive role in the drafting of Russian federal legislation regulating the safe operation of pipelines: in 2017 work was performed to draft federal norms and rules on the safe operation of in-field pipelines, as well as to draft normative standard on the protective coating of the internal surface of pipes used in the oil industry. Standardization of respective requirements will enable all Russian companies to determine more accurately the coatings that are most effective for use in different conditions, thus increasing the level of industrial and environmental safety and reducing the number of oil spills throughout the country.

Use of unmanned technologies

We are looking at the experience in applying new technologies, such as drones, including for the purpose of monitoring the integrity of pipelines and rapidly responding to unauthorized actions from third parties. The Research and Technology Board of LUKOIL is assessing various technologies that could be used at the Company’s facilities. Aerial vehicles from different manufacturers are being tested at LUKOIL Group subsidiary sites in order to determine their potential value and use. Based on the test results there are plans to adopt a decision on the expedience of using them, and the terms governing their practical use.

Oil spills

In 2017 the total amount of oil and petroleum products spilled dropped by 13.6% in comparison with 2016, despite the fact that the number of accidents affecting the environment rose.

In 2017, two incidents resulted in environmental damage and oil being spilled into water bodies. Based on 2016 data, LUKOIL’s indicator for oil spilled was low compared to other oil and gas companies. In 2017, the Group’s overall dynamics improved. Apart from one large spill, which occurred as a result of an unauthorized tie-in to a pipeline in West Siberia, all other incidents combined accounted for 5.7% of the total volume of oil spilled.

VOLUME OF OIL AND PETROLEUM PRODUCTS SPILLED DURING INCIDENTS

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume of oil and petroleum products spilled during incidents, thousand tonnes</th>
<th>Specific spills rate (kg of oil and petroleum products spilled per 1000 tonnes of oil and gas condensate extracted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.26</td>
<td>31</td>
</tr>
<tr>
<td>2017</td>
<td>0.22</td>
<td>27</td>
</tr>
</tbody>
</table>

Note: The specific factor is calculated on the basis of the volume of oil and gas condensate production in Russia (excluding the share of dependent organizations).

1 For example, LUKOIL Komi Oil Field Pipelines of Regional Production Enterprises of LUKOIL-Komi. Corrosion Monitoring System. LUKOIL Nizhnevartovskneftegaz Repair of Offshore Pipelines technical regulation.


Incidents

In 2017 two major incidents were recorded at LUKOIL subsidiaries: a fire at a well at the A. Alabushin field, and an incident which occurred during the installation of a fire extinguishing system on a tank at LUKOIL-Nizhnevolzhskneftegaz.

On 10 April 2017, during geophysical work to determine the location of a bottom hole (during a well workover) at the LUKOIL-Komi A. Alabushin field, there was a discharge of petroleum products and a subsequent fire at the well. An investigation determined that an uncontrollable blowout had occurred as a result of using non-standard equipment during well-labelling survey work. This was compounded by unprofessional actions on the part of a contractor’s staff when the first indications of gas, oil, and water inflows arose.

As a result of the incident, mandatory requirements were developed for contractors (at the tender stage), and procedures were introduced requiring:
- attestation (knowledge audit) of the management, chief engineer, and the heads of the production units of the contractor on industrial safety issues at an attestation commission of the client entity;
- audits of the compliance of engineering and technical facilities of bidders with tender documentation requirements;
- audits of the existence of operational HR management systems and quality controls of services being provided.

The liability of LUKOIL Group subsidiary employees was increased, up to and including dismissal under the Russian Labor Code in the event that violations were identified of occupational and fire safety rules and process engineering norms which resulted in grave consequences (accident, occupational accident), or demonstrably created a real risk of such consequences.

Regular staff training courses on the following topics is planned:
- clean-ups of uncontrollable blowouts by the representatives of blowout prevention units and the structural subdivisions of a subsidiary, in order to develop the skills necessary to ascertain situations and to develop an operational clean-up plan for an uncontrollable blowout;
- working through issues involved in registering incoming resources (chronology of events);
- communications and transferring information on progress regarding the clean-up of an accident;
- resource management during the clean-up of an uncontrollable blowout.

The state of readiness of blowout prevention units (based on concluded contracts) was audited, together with their technical equipment, staffing levels, and the extent of the preparation of emergency response personnel. This included response arrival times at the scenes of accidents and incidents, or if there is the appearance of any signs of possible oil, gas, and water inflows and uncontrollable well blowouts.

Expenditures on fountain and radiation safety were increased from 106 RUB million in 2016 to 110 RUB million in 2017.

Work was organized with the federal executive authorities to improve the regulatory and legal frameworks governing the activity of professional accident rescue groups charged with the prevention and clean-up of gas, oil, and water inflows and uncontrollable blowouts at oil and gas wells.

In connection with the above incident, the Company increased its interaction with the local authorities and residents of the population centers nearest to the A. Alabushin field (Shchelyabozh village and Kusshor village), as well as environmental organizations. At a working meeting, LUKOIL CEO Vagit Alekperov and Head of the Komi Republic Sergey Gaplikov discussed the results of efforts undertaken to eliminate the consequences of the incident. LUKOIL voluntarily arranged comprehensive and free medical examinations for affected residents and organized a summer holiday for children from the affected areas. Representatives from Russian and international environmental organizations also visited the scene of the incident to assess the results of the clean-up work, and they also met with affected residents.

On 5 October 2017 there was another incident at LUKOIL-Nizhnevartovskneftegaz. An accident occurred during the installation of the fire extinguishing system for tank R-1549 in the marketable product and crude storage unit, which led to a fire.

At the time this Report is issued, an investigation into the reasons for the incident is still ongoing.

“…It goes without saying that the mistake of the contractors leading to the fire had serious consequences. However, we managed, together with the accident rescue groups, the fire teams of the EMERCOM of Russia and the rapid response teams of LUKOIL-Komi, to extinguish the fire as quickly as possible.”

VAGIT ALEKPEROV, PJSC LUKOIL President and CEO
Employee health and safety

Target 8.8.
Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

We seek to comply with global best practices when it comes to the health and safety of our employees and we have set ourselves the following goal: to reduce the number of on-the-job injuries through planned and systematic actions aimed at improving health and safety conditions.

The actions of LUKOIL Group’s Program of Health and Safety, Better Working Environment, Emergency Prevention, and Response for 2017-2019 aim to prevent accidents and injuries, implement a culture of work safety, provide employees with protective equipment, deliver training and instruction, and prevent work-related illnesses, among other goals.

LUKOIL allocates significant funds to implement health and safety measures. In 2017, RUB 12,307 million was allocated to finance program measures.

LUKOIL also monitors the number of employees engaged at workplaces with potentially harmful working conditions.

The number of employees engaged at workplaces with potentially harmful working conditions (3rd class) decreased. For the second consecutive year, the Company has fully eliminated workplaces with harmful working conditions of 3.4th subclass (the highest subclass of the 3rd class). The Company also has no workplaces with dangerous working conditions (the 4th class).

CHANGE IN NUMBER OF EMPLOYEES ENGAGED AT WORKPLACES WITH HARMFUL WORKING CONDITIONS AT RUSSIAN LUKOIL GROUP SUBSIDIARIES, people

Injury rate

According to data for 2016, the injury rate at Russian subsidiaries of LUKOIL Group was lower than the injury rate of the industries in which Russian subsidiaries of LUKOIL Group operate. In 2017 we managed to considerably improve the values of indicators related to injuries, such as the lost time accident frequency rate and the total number of lost time injuries in Russian subsidiaries.

LUKOIL carefully investigates each accident, determines the causes, and analyzes all circumstances surrounding it in order to prevent any repeat accidents in the future. (The incidents in 2017 mainly related to road traffic accidents, rockslides, and injuries due to high voltage.)

The total number of injured employees at such accidents in Russia dropped over three years by a third, including at LUKOIL Group subsidiaries (by 33%), and contractor organizations (by 33%). Nevertheless, despite the reduction in the total number of accidents and injuries, there was a rise in the number of fatalities at contractor organizations.

Over three years the total number of accidents at Russian subsidiaries fell by 33%, and at foreign subsidiaries by 50%; the lost time accident frequency rate (LTAFR) dropped by nine and 14 points, respectively.

1 The comparison is based on the bulletin Occupational injuries in the Russian Federation in 2016, source: the website of the Federal State Statistics Service (http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/). The injury rate is understood to mean the number of fatalities and lost time injuries (for one business day or more) per 1,000 employees. The comparison was performed for the following industries: production of crude oil and natural gas and the provision of services in these areas, the output of petroleum products, electricity generation, and pipeline transportation.
### INDICATORS RELATED TO OCCUPATIONAL INJURIES AND DISEASES AT RUSSIAN SUBSIDIARIES OF LUKOIL GROUP

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of occupational accidents</td>
<td>24</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Number of injured employees (total number of injuries), including</td>
<td>30</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td>number of fatalities (FA)</td>
<td>7</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>number of lost time injuries (LTI)</td>
<td>23</td>
<td>23</td>
<td>16</td>
</tr>
<tr>
<td>Number of employees with occupational diseases established for the first time</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Lost time accident frequency rate (LTAFR)</td>
<td>0.28</td>
<td>0.21</td>
<td>0.19</td>
</tr>
<tr>
<td>Severity rate (SR)</td>
<td>81.0</td>
<td>69.7</td>
<td>71.6</td>
</tr>
<tr>
<td>Occupational disease rate (ODR)</td>
<td>0.082</td>
<td>0.070</td>
<td>0.060</td>
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</tbody>
</table>

### INDICATORS RELATED TO OCCUPATIONAL INJURIES AND DISEASES AT RUSSIAN SUBSIDIARIES OF CONTRACTOR ORGANIZATIONS

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of occupational accidents</td>
<td>24</td>
<td>22</td>
<td>16</td>
</tr>
<tr>
<td>Number of injured employees (total number of injuries), including</td>
<td>29</td>
<td>28</td>
<td>20</td>
</tr>
<tr>
<td>number of fatalities (FA)</td>
<td>7</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>number of lost time injuries (LTI)</td>
<td>22</td>
<td>20</td>
<td>10</td>
</tr>
</tbody>
</table>

Note: Lost time accident frequency rate = Number of occupational accidents in the reporting period / 1000 / Average headcount of employees in the reporting period. Injury severity rate = Number of days of temporary incapacity for work (due to occupational accidents) according to the closed sick leave certificates in the reporting period / Number of accidents for which sick leave certificates were closed in the reporting period. Occupational disease rate = Number of persons with newly established occupational diseases in the reporting period / 1000 / Average headcount in the reporting period.

1. If an employee was injured more than once during the reporting period, each instance is recorded as a separate injury.

### INDICATORS RELATED TO OCCUPATIONAL INJURIES AND DISEASES AT LUKOIL GROUP FOREIGN SUBSIDIARIES

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of occupational accidents</td>
<td>8</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Number of injured employees (total number of injuries), including</td>
<td>8</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>number of fatalities (FA)</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>number of lost time injuries (LTI)</td>
<td>8</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Number of employees with occupational diseases established for the first time</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Lost time accident frequency rate (LTAFR)</td>
<td>0.38</td>
<td>0.05</td>
<td>0.24</td>
</tr>
</tbody>
</table>

### INDICATORS RELATED TO OCCUPATIONAL INJURIES AND DISEASES AT LUKOIL GROUP CONTRACTOR ORGANIZATIONS

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of occupational accidents</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Number of injured employees (total number of injuries), including</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>number of fatalities (FA)</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>number of lost time injuries (LTI)</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Note: Lost time accident frequency rate = Number of occupational accidents in the reporting period / 1000 / Average headcount of employees in the reporting period. Injury severity rate = Number of days of temporary incapacity for work (due to occupational accidents) according to the closed sick leave certificates in the reporting period / Number of accidents for which sick leave certificates were closed in the reporting period. Occupational disease rate = Number of persons with newly established occupational diseases in the reporting period / 1000 / Average headcount in the reporting period.

1. If an employee was injured more than once during the reporting period, each instance is recorded as a separate injury.
We believe the main way to reduce injuries is to further improve the HSE Management System of LUKOIL Group and to increase the motivation of employees and management of subsidiaries to ensure safe work.

In 2017 the Company began implementing new tools to increase safety levels in this regard:
- over 200 leadership safety visits were held, with the participation of line managers – from the senior vice president of PJSC LUKOIL to the management of subsidiaries;
- Safety Days were held throughout the Company, with the participation of key contractors;
- Cooperation Plans with key contractors on health, safety and environment issues were introduced at LUKOIL Group subsidiaries;
- In order to further improve health and safety plans are under way to bolster work in the following areas:
  - increase the operational efficiency of decision-making to prevent and/or resolve emergencies;
  - the establishment of necessary terms and conditions to prevent emergencies at contractor (subcontractor) organizations.

Maintaining employee health

Against a backdrop of a low level of work-related illnesses at LUKOIL Group subsidiaries, the vast majority of registered instances were identified at the Yareganeft oil mining division of LUKOIL-Komsomolsk, among mine workers, timber workers, and oil and gas production operators.

To reduce the impact of these adverse factors, state-of-the-art extraction technologies are being implemented at the Yareganeft oil mining division. This is the only location in Russia where oil is extracted, in part through the underground thermal mining method. As in any mining method to extract minerals, the extraction method has its shortcomings – for example, working in a confined space, and heightened noise levels, vibrations, and temperature.

To reduce the impact of these adverse factors, state-of-the-art extraction technologies are being implemented at the division which will significantly reduce health risks for workers. The working conditions have also been improved thanks to the introduction of new air conditioning and ventilation systems, retrofitting of the pumping fleet, the acquisition of equipment that eliminates contact with vibration sources, the installation of computer equipment, reduction in the share of manual labor, and the use of individual protection gear.

In addition, we are implementing measures to facilitate the early identification of an employee’s susceptibility to work-related diseases, thus making it possible to promptly transfer that employee to another job which does not involve contact with industrial health hazards sources.

We believe these and other measures will have a positive impact on employee health, in particular on employees who have worked for a long period at mines. Over time this will help dramatically reduce the number of registered work-related illnesses.

Improving the working conditions at oil mines

The Yareganeft oil mining division is developing one of the oldest Timan-Pechora fields, Yaregeskoye. Operations began back in 1939. This is the only location in Russia where oil is extracted, in part through the underground thermal mining method.

To develop a culture of safety and to perfect the actions required in emergencies, LUKOIL organized a mass training of employees in 2017 on the topics “Health and Safety” and “Providing First Aid To Those Injured At Work”. A decision was taken to make extensive use of situational training simulators. Such simulators are used to practice the actions to be taken in the event of emergencies and also improve the technical skills required for the safe operation of complex equipment.

By leveraging the advantages offered by distance learning systems (DLS), employees can independently enhance their skills, test how well they have assimilated the materials on each topic, and undergo certification procedures. In 2017 programs were undertaken to raise the quality of DLS education and, in particular, to provide additional training.

In 2017 a total of 57,513 employees at Russian subsidiaries and 12,670 at foreign subsidiaries attended various types of health and safety training courses.

In 2018 there are plans to implement a project to use electronic briefings in the DLS system.

Interaction with trade unions on health and safety issues

The International Association of Trade Union Organizations of PJSC LUKOIL (IATUO) is dedicated to safeguarding the legal interests and rights of employees to health and safe working conditions and to working jointly on these issues with the administration of the Company on the basis of social partnership principles.

Trade unions that are members of IATUO pay particular attention to the quality of employee training on safe working techniques and methods, compliance with health safety requirements, prevention of occupational injuries and diseases, the status of medical services, the provision of individual and group protection gear, and notification of employees about work safety and other areas designed to inculcate a culture of work safety.

IATUO includes an institute of technical labor inspectors and around 2,000 authorized employee representatives dealing with health and safety issues. These employees monitor compliance with the occupational safety obligations of the Company contained in the collective bargaining agreements of LUKOIL Group subsidiaries.
Personnel

Target 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

Target 8.5. By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Target 10.3. Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies, and practices.
Our HR Strategy is guided by the general strategy of LUKOIL Group and focuses on stable, long-term development based on traditions and many years of experience in the Russian oil industry. Our aim is to utilize our staff’s potential to the fullest, thus strengthening the Company’s key competitive advantages and boosting our ability to rapidly adapt to changes in external factors and successfully implement innovations. Our underlying principles and the basis for a relationship with employees and trade unions focus on strict adherence to all legislative and social norms.

The staffing structure has remained stable over the past three years:
- The ratio between men and women employed is roughly equal, with a slightly larger number of men, which is attributable to the operating specifics of the industry in which the Company operates (as at 31 December 2017, 59% of the Company’s employees were men and 41% were women).
- Employees under the age of 35, including:
  - Total for LUKOIL Group, including:
    - Russian subsidiaries of LUKOIL Group
    - Foreign subsidiaries of LUKOIL Group
  - Share of local management
  - Senior management
  - Including from local population
  - Share of local management

In 2017 our HR systems were enhanced and a number of projects were implemented, including:
- The Working Group on Organizational Efficiency was set up, and proposals were prepared to boost labor productivity at LUKOIL Group subsidiaries.
- Methodological support was provided to help develop the risk management and internal control system.
- Implementation of the software solution ICS Personnel continued.

The strategic priorities of the Company are to guarantee safe working conditions, reduce accident and injury rates, and apply global best practices in the oil industry.

The HR system at LUKOIL Group is based on the Code of Business Conduct and Ethics of PJSU LUKOIL, Corporate Culture Rules, and the obligations set forth in the Social Code of PJSU LUKOIL and other regulatory documents. These documents are binding on all LUKOIL Group subsidiaries. These documents cover approaches to our work with personnel, selecting, and evaluating personnel, and other issues.

AVERAGE HEADCOUNT, employees

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total for LUKOIL Group, including:</td>
<td>107,040</td>
<td>105,539</td>
<td>103,647</td>
</tr>
<tr>
<td>Russian subsidiaries of LUKOIL Group</td>
<td>84,793</td>
<td>85,391</td>
<td>85,790</td>
</tr>
<tr>
<td>Foreign subsidiaries of LUKOIL Group</td>
<td>22,247</td>
<td>20,148</td>
<td>17,857</td>
</tr>
</tbody>
</table>

HEADCOUNT AS AT 31 DECEMBER OF EACH YEAR, employees

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total for LUKOIL Group, including:</td>
<td>111,331</td>
<td>110,101</td>
<td>107,405</td>
</tr>
<tr>
<td>Russian subsidiaries of LUKOIL Group</td>
<td>89,167</td>
<td>90,112</td>
<td>89,323</td>
</tr>
<tr>
<td>Foreign subsidiaries of LUKOIL Group</td>
<td>22,164</td>
<td>19,989</td>
<td>18,082</td>
</tr>
</tbody>
</table>

STAFF TURNOVER, %

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total for the LUKOIL Group, including:</td>
<td>7.4</td>
<td>7.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Russian subsidiaries of LUKOIL Group</td>
<td>6.6</td>
<td>5.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Foreign subsidiaries of LUKOIL Group</td>
<td>10.9</td>
<td>12.8</td>
<td>11.6</td>
</tr>
</tbody>
</table>

Note: The staff turnover coefficient is calculated as the ratio of the number of those dismissed to the average number of employees for the reporting period (dismissed employees include those discharged for旷工 or other labor discipline violations, and those who were voluntarily in a result of moving, retiring, leaving after a child aged under 14, etc., or who leave the Company upon mutual agreement with the exception of employees who are rehired the following day.)

LUKOIL provides opportunities for suitably qualified local employees to fill vacancies – including managerial ones – in its regions of operation. In European countries, the share of representatives from the local population in management is higher than average for the Company (between 40% and 100%). Our fundamental approach is to recruit the best specialists to the Company and provide them with the opportunities they need to fully realize their potential.
The professional recruitment and deployment of management facilities results in consistently high levels of performance and the effective management of LUKOIL Group subsidiaries. No executives can be recruited from local markets at foreign subsidiaries. Russian employees recognized as having high potential are seconded to managerial positions in order to support and disseminate uniform standards and the corporate culture of LUKOIL Group, as well as to expand competencies through work experience on international projects.

Guarantees of employment entitlement rights

The main document regulating relations between the Company and its employees is the Agreement between the Employer and the Trade Union Association of Public Joint-Stock Company LUKOIL Oil Company for 2015-2020.

Collective bargaining agreements were concluded at 46 Russian and 10 foreign subsidiaries, and covered 88% of employees. Moreover, this figure covers 95.5% of employees at Russian subsidiaries. Russian subsidiaries where collective bargaining agreements have not been concluded are subject directly to the Industry Agreement of Organizations Operating in the Oil and Gas Industry and the Construction of Oil and Gas Facilities in the Russian Federation.

By ensuring social stability and improving the comfort and quality of life of employees, LUKOIL implements an extensive social policy, which includes benefits and guarantees available to all employees, irrespective of whether they are a member of a trade union organization or whether there is a trade union or not. These benefits are provided regardless of the employment type (full or part-time). The Company's additional obligations, based on Russian law and international standards, are set forth in the Social Code of PJSC LUKOIL.

Guarantees of employment entitlement rights include:L

- Guaranteed employment (guarantees of employment entitlement rights for the duration of the working week, and LUKOIL strictly observes these.
- In Russia, working hours are established by Employment Policies and Procedures in accordance with labor legislation, the Industry Agreement on the Organization of Oil and Gas Industries and the Construction of Oil and Gas Facilities of the Russian Federation, the Agreement between the Employer and the Trade Union Association of Public Joint-Stock Company LUKOIL Oil Company for 2015-2020, and collective bargaining agreements. For employees whose working hours differ from the general rules established by the employer, this issue is governed by the respective employment contract, with due account for the nature of production and the work specifics and working conditions.
- In particular, shift work is introduced in instances where the duration of the production process exceeds the permitted number of daily working hours, and also to ensure the most effective use of equipment and to increase output or the volume of services being provided. In shift work, each group of employees must perform their work during established working hours in accordance with the shift schedule. The employer drafts the shift schedule with due account of the opinion of the representative body of employees, and notifies employees against a signed receipt no later than one month before the schedule comes into force.
- Rotation work is a particular type of work which is conducted at a considerable distance from the permanent residence of employees (i.e., where daily return to the permanent place of residence of the employee cannot be guaranteed). Rotation work is established at LUKOIL Group subsidiaries at remote fields and continuous production facilities. A rotation cannot last longer than one month.
- In rotation work a record is kept of cumulative working hours for a month, quarter, or other more protracted period, but no more than one year. The accounting period covers all working days, but no more than one month.

The employer accounts for the working and leisure hours of each employee working rotation by months and for the entire accounting period. The working and leisure hours within the accounting period are regulated by the rotation work schedule, which is approved by the employer, taking into account the opinion of the collective body of the primary trade union organization, and is communicated to employees against a signed acknowledgment receipt no later than two months before it comes into force. This schedule stipulates the time required to deliver employees to the rotation and back. The days in transit to the work place and back are not included in working hours and may accrue to days of rest and recreation between rotations. When assembling rotation personnel, priority is given to local individuals with the necessary qualification.

During their time at production facilities, comfortable conditions are created for employees engaged in rotation work: they live in specially created rotation camps or in furnished hostels paid by the employer.

Staff expenses, total for the LUKOIL Group, including:

<table>
<thead>
<tr>
<th>Segment</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff expenses, total for the LUKOIL Group</td>
<td>153,729.4</td>
<td>153,415.0</td>
<td>142,145.0</td>
</tr>
<tr>
<td>wages</td>
<td>155,465.0</td>
<td>157,661.0</td>
<td>152,022.3</td>
</tr>
<tr>
<td>social benefits and payments, social support for employees</td>
<td>17,075.0</td>
<td>14,638.2</td>
<td>9,297.4</td>
</tr>
<tr>
<td>training</td>
<td>1089.3</td>
<td>1052.6</td>
<td>825.3</td>
</tr>
</tbody>
</table>

Note. The indicator “wages” is prepared in accordance with instructions on how to complete the federal statistical monitoring forms approved by Federal State Statistics Service Order No. 278 dated 12 November 2008, including amendments and addenda approved by Federal State Statistics Service Order No. 240 dated 3 November 2009. Salary includes remuneration amounts accrued by the employer.

INFORMATION ON NUMBER OF FULL-TIME ROTATION EMPLOYEES

<table>
<thead>
<tr>
<th>Year</th>
<th>Headcount of rotation employees</th>
<th>Share of rotation employees in total number of employees of subsidiaries at end of period, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>13,280</td>
<td>10.751</td>
</tr>
<tr>
<td>2016</td>
<td>13,823</td>
<td>10,562</td>
</tr>
<tr>
<td>2017</td>
<td>14,080</td>
<td>10,763</td>
</tr>
<tr>
<td>2015</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>2016</td>
<td>16</td>
<td>18</td>
</tr>
</tbody>
</table>

LUKOIL GROUP SUSTAINABILITY REPORT 2017

www.lukoil.com
We took the maximum of the following three figures to define entry-level salaries at subsidiaries operating in a specific region: the subsistence minimum as a whole for the Russian Federation, the local subsistence minimum in the respective Russian region, and the regional minimum wage.

During 2017 HR audits were conducted at LUKOIL-Komi, LUKOIL-Stavropolenergo, LUKOIL-Chernomorye, RITEK, LUKOIL-Enrgoengineering, and Varandey Terminal.

During 2017 HR audits were conducted at LUKOIL Group subsidiaries for the maximum of the following three figures to define entry-level salaries: the subsistence minimum as a whole for the Russian Federation, the local subsistence minimum in the respective Russian region, and the regional minimum wage. The base salary less than the subsistence minimum of the subsidiary is established as being no lower than the subsistence minimum in the respective Russian region, and the regional minimum wage.

We seek to maintain a competitive employee remuneration system. Our goal is to attract, retain, and motivate individuals whose qualifications and performance will ensure the successful implementation of our mission and the achievement of our business goals.

Under an agreement between LUKOIL and the trade union association, the minimum rate of pay in Russian subsidiaries is established as being no less than the subsistence minimum of the employed population. The base salary depends on the employee’s established duties, the challenges inherent in their work, and the level of responsibility, and is set individually for each employee taking into account their level of education and practical experience.

In 2017 the starting salary in Russian regions of the LUKOIL Group exceeded the established regional minimum wage in the respective regions by on average 25%1. The starting salary of employees of LUKOIL Group foreign subsidiaries is set at no lower than the minimum wage in the countries where the Group operates, as established by labor legislation norms and/or the collective bargaining agreement and/or internal regulations.

Based on an analysis of the governance systems at a subsidiary, recommendations were made on how to improve managerial processes, and plans were drafted to eliminate identified deficiencies, indicating respective deadlines and the responsible parties.

No violations of human rights in the form of the use of child labor or forced labor were found at the audited subsidiaries.

The incentive system for employees in Russian subsidiaries also consists of a wide range of benefits and compensations established by the agreement between the employer and the trade union organization, collective bargaining agreements, and other internal regulations. Within the benefits and compensation system considerable attention is paid to issues that affect the quality of life of employees, such as maintaining their health, helping employees and their families, and providing assistance on home purchases. Social support is also provided to employees that have retired from the Company.

The program is implemented under the Fundamental Principles of the LUKOIL Group’s Housing Policy, and aims to provide production staff (invited specialists and young specialists) with housing and help employees improve their housing conditions by subsidizing interest rates on bank mortgage loans.

The estimated value of pension liabilities at the end of the reporting period was RUB 10,367 million. The pension plan covered over 52,000 employees.

Pension coverage for the employees of foreign LUKOIL Group subsidiaries is provided in accordance with the legislation of the country in which the respective subsidiary operates and local regulations.

Professional standards and employee performance evaluation

In 2017, work continued to bring the job duties and qualifications of employees in line with the requirements of professional standards. Towards this end, uniform approaches to working with professional standards at LUKOIL Group subsidiaries were drafted.

For the first time, an independent appraisal of qualifications is being carried out in the industry. This process will make it possible to raise the professional level of oil and gas enterprise employees and to improve the quality of human capital in the industry.

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Staff development

The staff corporate learning and development system revolves around the Company’s strategic plans and requirements for employees with specific qualifications and competencies. We focus above all on allowing our employees to develop the skills and competencies that they need and on attracting and developing young specialists.

We believe staff training, including through professional retraining, is key to minimizing risks related to unprofessional employee actions, including those on the part of employees of service/contractor organizations.

Development programs focus on prioritizing the training requirements identified for different staff groups, based on an analysis of differences between the requirements imposed on employees and the existing competency level. We use our entire arsenal of training resources and forms, applying relevant economic and methodological tools.

We train staff on the basis of the annual Continuing Professional Development Plans of employees of PJSC LUKOIL and LUKOIL Group subsidiaries. Our main strategic partners are higher education academic institutions and academic centers with a proven record of providing quality educational services. Employee educational programs help the Company successfully meet objectives related to new lines of business, and maintain the required level of competitiveness. An increase in the quality and effectiveness of employee work and a reduction in staff turnover through greater commitment and engagement help reduce costs.

We intend to continue to develop the continuous corporate learning system. This work includes plans to draft an integrated long-term training program for various employee groups.

Corporate knowledge management system

We closely monitor the development of staff knowledge in order to facilitate the innovative development of the Company and to achieve optimum financial results. As part of the existing corporate knowledge management system, we follow the development processes of young specialists and staff in general, primarily based on joint work with recognized corporate experts.

In 2017 the LUKOIL project “Creation and Development of a Corporate Knowledge Management System Based on the Example of the Knowledge Management System of the Upstream Business Segment” was declared the winner in the Organizational Intelligence category at the 4th Russian competition of best practices of employers in developing human capital, Creating the Future.

Youth policy

Youth policy is a key focus area for us. It comprises a system of measures aimed at recruiting young employees and creating the necessary conditions and opportunities to ensure their successful development.

We refer to the results for 2017. Over 60 LUKOIL Group subsidiaries were connected to DLS, and more than 92,000 users were registered. During the year employees successfully completed more than 100,000 training courses, thereby increasing their workplace-related qualifications.

Leveraging DLS opportunities, we implemented an integrated training program for the operators of filling stations (including adaptation, start, and support training).

R&D competitions and conferences.

R&D competitions and conferences are held annually. In 2016 events were held at 31 LUKOIL Group subsidiaries in Russia.

Councils of Young Professionals.

The goal of these Councils is to help young employees adapt to working conditions at LUKOIL. Off-site meetings of the LUKOIL Group Council of Young Professionals are held annually in Russian regions. In 2017 an event was hosted in Sochi at the Sirius Educational Center, as part of Russian Health and Safety Week. The participants drafted proposals which will serve as the basis for the new Integrated Target Program for Working with Youth.

Young Professionals Day.

Young Professionals Day is an annual event. In 2017 the day included a LUKOIL City teambuilding training course, with 150 people participating, and the second round of the “Club of Merry Oil Workers.”

Young Professional of the Year contest.

In 2017 the results of the 12th Annual Young Professional of the Year were announced. The contest featured 122 participants in 22 categories, and 59 young professionals from LUKOIL Group subsidiaries were declared winners.

Meeting Between Generations corporate evening.

In 2017 a corporate evening entitled Meeting Between Generations was held. The event was attended by young and long-term employees of the Company. The event included the awards ceremony of the 12th Young Professional of the Year from LUKOIL Group subsidiaries of the Moscow Region and a concert from the Alexandrov Ensemble.

<table>
<thead>
<tr>
<th>INDICATORS OF WORK WITH YOUNG PROFESSIONALS</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of young employees</td>
<td>42,772</td>
</tr>
<tr>
<td>Number of young professionals</td>
<td>1,945</td>
</tr>
<tr>
<td>Recruited young employees</td>
<td>12,125</td>
</tr>
<tr>
<td>Number of students trained under contracts with LUKOIL Group subsidiaries</td>
<td>295</td>
</tr>
<tr>
<td>Number of students on internships at LUKOIL Group subsidiaries</td>
<td>2,960</td>
</tr>
</tbody>
</table>

1 Young employees – employees of PJSC LUKOIL, and LUKOIL Group subsidiaries aged up to 35, including young professionals. Young professionals are employees under the age of 46, who have a higher or secondary professional education, joined the Company based on their educational background, including blue-collar professions, within six months after graduating from an academic institution or within three months after completing their military service with the Russian Armed Forces.
Local communities

Target 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

Target 11.4. Strengthen efforts to protect and safeguard the world’s cultural and natural heritage.

Target 17.17. Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

- 78 External social policy priorities
- 82 Education
- 83 Support for children and childcare institutions
- 84 Sport
- 85 Indigenous peoples of the North
Many LUKOIL Group subsidiaries are major enterprises in the regions where the Company operates, and thus have a significant impact on local communities. By investing in production capacities, creating decent working conditions, and implementing charity programs, LUKOIL contributes to the social and economic stability of these areas, as well as the development of human capital.

External social policy priorities

The Company’s external social policy focuses on key stakeholder groups and is performed using various mechanisms:
- partnerships with local authorities as part of cooperation agreements with the constituent subjects of the Russian Federation
- interactions with indigenous peoples of the North in Russia
- holding the annual Social and Cultural Projects Contest in Russia for a wide range of public and municipal organizations
- supporting charity and sponsorship with the ultimate beneficiaries being both specific target groups (for example, children deprived of parental care or with special needs) and the residents of population centers in general

The priorities of LUKOIL Group’s external social activity are the same for all the regions and countries where our subsidiaries operate, and include assisting with economic development, supporting culture, sports, science and education, improving the environment in the regions where the Group operates, promoting healthy lifestyles, and assistance to childcare institutions.

An important principle of external social activity is partners and initiators making a financial contribution to social projects. For example, a mandatory condition for taking part in the Social and Cultural Projects Contest is that the applicant organization must make a contribution from its own funds or borrowings equivalent to at least 30% of the requested amount.

Cooperation agreements with constituent subjects of the Russian Federation

As a result of social investments in Russian regions, educational, cultural, healthcare, sports, and religious facilities have been upgraded or built, infrastructure developed, and landscaping performed. Joint projects with local authorities help increase the quality of life of the residents of the regions, boost personal development opportunities, and improve health.

MALY THEATRE IN KOGALYM

A branch of the Maly Theatre will soon open in Kogalym, LUKOIL’s “Family Seat”. Its façade will be similar to that of the Moscow branch of the Maly Theatre on ulitsa Bolshaya Ordynka. Large-scale productions are being planned for the theatre. The troupe of the theatre in Kogalym will be formed from graduates of Schepkin College, who will work with professional directors from Moscow. The completion of the renovation work is scheduled for 2018.

Social and Cultural Projects Contest

The Social and Cultural Projects Contest of LUKOIL has been held since 2002. Its main goals are to support projects and initiatives from local communities to resolve existing problems and to create the conditions necessary to increase the number of active citizens and organizations capable of implementing outstanding social ideas in their region. LUKOIL Group subsidiaries and the LUKOIL Charity Foundation are the contest’s organizers.

The contest is open to private non-profit organizations, state municipal budgetary organizations, and local government authorities. Applications are considered in three key areas: the Environment, Spirituality and Culture, and Sport. Furthermore, an additional subject is approved each year.
Areas taking part in the Social and Cultural Projects Contest

**RESULTS OF THE SOCIAL AND CULTURAL PROJECTS CONTEST, 2017**

<table>
<thead>
<tr>
<th>Contest operator</th>
<th>Number of projects</th>
<th>Financial support to winners’ projects, RUB million</th>
<th>Project implementation area</th>
</tr>
</thead>
<tbody>
<tr>
<td>LUKOIL-PERM, LUKOIL-Peninsulaproduct, LUKOIL-Peninsularegion</td>
<td>855 (74)</td>
<td>27</td>
<td>Perm Territory, Republic of Bashkortostan, Udmurtia</td>
</tr>
<tr>
<td>LUKOIL, Nizhnevostoknefteprodukt, RITEK, LUKOIL-Volgogradneftepererabotka, LUKOIL-Volgogradenergo, LUKOIL Charity Foundation</td>
<td>470 (68)</td>
<td>11</td>
<td>Volgograd Region</td>
</tr>
<tr>
<td>LUKOIL, Nizhnevostoknefteprodukt, LUKOIL-Asparganenergo</td>
<td>108 (5)</td>
<td>5</td>
<td>Astrakhan Region</td>
</tr>
<tr>
<td>LUKOIL, Nizhnevostoknefteprodukt, LUKOIL Charity Foundation</td>
<td>38 (5)</td>
<td>1</td>
<td>Republic of Kalmykia</td>
</tr>
<tr>
<td>LUKOIL, Komi, LUKOIL Charity Foundation</td>
<td>155 (56)</td>
<td>15</td>
<td>Komi Republic, Nenets Autonomous Area</td>
</tr>
<tr>
<td>LUKOIL-West Siberia</td>
<td>118 (32)</td>
<td>4</td>
<td>Khanty-Mansi Autonomous Area-Yugra, Yamalo-Nenets Autonomous Area, Tyumen Region</td>
</tr>
<tr>
<td>LUKOIL-Volganefteprodukt, LUKOIL-Nizhegorodnefteorgsintez, LUKOIL Charity Fund</td>
<td>375 (60)</td>
<td>10</td>
<td>Nizhny Novgorod Region, Volgograd Region, Vladimir Region, Republic of Moldavia, Mari El Republic, Chuvashia</td>
</tr>
<tr>
<td>LUKOIL-Kaliningradmorneft, LUKOIL Charity Fund</td>
<td>103 (17)</td>
<td>4</td>
<td>Kaliningrad Region</td>
</tr>
<tr>
<td>RITEK, LUKOIL Charity Foundation</td>
<td>408 (74)</td>
<td>15</td>
<td>Samara Region</td>
</tr>
<tr>
<td>RITEK, LUKOIL Charity Foundation</td>
<td>683 (97)</td>
<td>30</td>
<td>Republic of Tatarstan</td>
</tr>
<tr>
<td>Stavropol, LUKOIL-Yugnefteprodukt, LUKOIL Charity Foundation</td>
<td>51 (21)</td>
<td>3</td>
<td>Stavropol Territory</td>
</tr>
</tbody>
</table>

**Total** | 3,364 (739) | 121 | |

---

**“The AntiSWINE project, which has been with us for five years now, was implemented thanks to support from the LUKOIL Charity Fund. The project brings together people that care about maintaining order in the city and keeping the shorelines of lakes and rivers clean.”**

R.B. KUSHKOVSKAYA, Head of the AntiSWINE movement (Nizhny Novgorod)

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**“Thanks to grants received from the LUKOIL Charity Fund we have implemented a number of socially important projects in various regions of Astrakhan: we created Veterans’ Square, improved the Walk of Fame, and restored the territory of a park near a memorial to soldiers who gave their lives in World War Two.”**

E.G. SELIVERSTOVA, Director of the Center for Strategic Analysis and Project Management (Astrakhan Region)

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**“Our project “Win by Overcoming” won a grant in the 2017 competition. With the funds awarded we examined 190 children from remote districts of the republic for the early detection of diseases, and organized various memorable and enjoyable events for families raising children with disabilities and physically challenged children.”**

A.L. ZAGRETDINOV, Project Director and founder of the Strength in Children charitable fund (Kazan)
Charity and sponsorship

LUKOIL’s charity and sponsorship projects are conducted throughout the country. Partners and beneficiaries include well-known creative teams, sports teams, research and medical centers, and small communities and groups of citizens in need of help. In Russia, these issues are managed by the LUKOIL Council for Coordination of Charity/Sponsorship Activities, which is chaired by First Vice-President of LUKOIL Alexander Matytsyn.

Foreign subsidiaries with smaller budgets plan charity activity independently within the framework of the general priorities approved by LUKOIL.

As part of the comprehensive cooperation program between LUKOIL Group subsidiaries and industry-specific higher education institutions (oil, chemistry, and gas), dedicated departments have been set up, the material and training facilities of universities have been increased significantly, and new training aids have been published.

In 2017 LUKOIL CEO Vagit Alekperov visited the opening at the Gubkin Russian State University of Oil and Gas (national research university) of a research and training site, a Center for Supervising Oilfield Development, and Exhibition Areas, which was refurbished with the Company’s support. The LUKOIL CEO delivered a lecture on development trends in global fuel and energy markets and the Russian oil industry, and met the recipients of LUKOIL scholarships and grants.

Education

In our interactions with local communities we pay close attention to improving educational levels, and seek to achieve this both through charity projects and interactive programs with secondary and higher educational institutions. We believe that in this way the Company can contribute to developing human capital and establishing intellectual potential in production areas that require modern and innovative solutions.

Programs for schoolchildren focus on developing the skills and knowledge that they will need in their studies and professional activity. Career-oriented work is performed for senior high school students, and trips are organized to LUKOIL enterprises.

Since 2000 we have been supporting promising students, young teachers, and masters of industrial training by awarding them with scholarships and grants. In 2017 the scholarship program covered 11 institutions of higher education, four colleges, and one high school in Russia. On average, LUKOIL grants are more than twice the size of a state grant1.

Target 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

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Support for children and childcare institutions

Our support program for childcare institutions (family support and childhood centers) is a priority within LUKOIL’s charity activity. We decided to provide support in this area long before the topic came to the attention of society. Our goal is to create conditions that provide the best start in life for children deprived of parental care.

The Company has helped resolve numerous issues encountered by sponsored childcare institutions: buildings now have modern interiors, and classrooms are equipped with suitable furniture and educational materials.

As a result of reforms to the guardianship system, the requirements of childcare institutions in the social sector in Russia have changed. It is for this reason that LUKOIL is intensifying its activity focused on the long-term personal development of children and their socialization and adaptation to independent life.

An acute problem faced by the children we support is the lack of an appropriate adult role model to communicate with, as a result of a breakdown in parent-child relations. We attempt to help resolve this complex issue through voluntary activities involving our young professionals.

The Company continues to help the graduates of sponsored orphanages obtain an education by providing them with grants. In 2017, 49 graduates received support in this area. We provide vocational training and also pay attention to the creative development of children. Towards this end, we hold the children’s drawing contest “We’re Drawing the Kremlin” and a special program as part of the Spasskaya Tower festival.

“Like these pictures on the screen – it feels as if you are watching cartoons at home. Now it is always fun in lessons!”

HASSAN SHAHID, pupil of the Al Rawad primary school located in Um Shehaage village.

SUPPORT PROGRAMS FOR STUDENTS AND TEACHERS IN HIGHER AND SECONDARY EDUCATIONAL ORGANIZATIONS IN RUSSIA

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Student grants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of grant holders, people</td>
<td>180</td>
<td>186</td>
<td>180</td>
</tr>
<tr>
<td>Amount of financing, RUB million</td>
<td>5.1</td>
<td>5.8</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Grants for teachers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of grant holders, people</td>
<td>82</td>
<td>88</td>
<td>89</td>
</tr>
<tr>
<td>Amount of financing, RUB million</td>
<td>9.0</td>
<td>9.6</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Note: Numbers for 2015-2016 have been adjusted

1 In 2017 the academic state grant for university students was set at RUB 1,404 per month.
particular an adaptive physical culture. The developed to improve the accessibility of ideas to implement social initiatives in this teams and are constantly looking for new We help both professional and amateur Sports Club.

these aims includes providing continual organized approach we adopt to achieving projects and the diversity of their formats. The expand the number of grassroots sports healthy lifestyles and sport in general, and LUKOIL’s sports program aims to promote

Project Ambassadors are stars from Europe and Asia and well-known football players participate in the project. The Project Ambassadors are stars from Europe and Asia and well-known football players participate in the project. The

as part of the annual musical festival Spasskaya Tower we implement a charity program that has already become a tradition for the young residents in family support and children centers. Educational master classes and lectures are organized for the young residents, who get to see real officer uniforms and weaponry, and also enjoy performances by musical bands and equestrian shows. In 2017 pupils from the Assistance Center for Family Education Kakhovskie Romashki and the Center for Family and Childhood Support in Zelenograd came to Moscow to attend an event, joining the Center for Family and Childhood Support of the North-West Administrative District of Moscow.

in honor of the 10th anniversary of the festival, an Art Object was placed in the area – a pumping unit for the production of oil. In addition, we developed theme-based drawings that the children were able to color in on special easels placed in the children’s village.

SPORT
LUKOIL’s sports program aims to promote healthy lifestyles and sport in general, and expand the number of grassroots sports projects and the diversity of their formats. The organized approach we adopt to achieving these aims includes providing continual support to sports organizations (clubs, federations, leagues, etc.) through the LUKOIL Sports Clubs.

We help both professional and amateur teams and are constantly looking for new ideas to implement social initiatives in the area. A sponsorship program is being developed to improve the accessibility of sports lessons for people with disabilities, in particular an adaptive physical culture. The implementation of the program is scheduled for 2018.

In 2017 the Company sponsored the charity hockey campaign entitled With a Pure Heart, with proceeds going towards sponsoring sportspersons and children with disabilities. In 2017 the LUKOIL Racing Team turned 20. A leading racing team, both in Russia and globally, in its anniversary year it won numerous races in Russian and international tournaments. As well as participating in tournaments, the team trains drivers and advances their careers, and develops, tests, manufactures, and prepares racing cars for competitions.

Indigenous peoples of the North

We share the principles set forth in the United Nations Declaration on the Rights of Indigenous Peoples, the United Nations Global Compact, and the UN World Conference Resolution on Indigenous Peoples. We seek to achieve a harmonious combination of our subsidiaries’ business activity on the ancestral habitats of indigenous peoples of the North (the Indigenous Peoples), thereby enabling them to retain their traditional lifestyle and business activity.

Interaction with the Indigenous Peoples is carried out within the framework of federal and regional Russian law, the licensing obligations of LUKOIL Group subsidiaries, and federal and regional support programs for the Indigenous Peoples. The main forms of interaction include:

- cooperation agreements between LUKOIL and the authorities of the regions
- economic agreements with the heads of territories on the traditional use of natural resources
- socio-economic development contracts with deer farms
- cooperation with non-governmental organizations

• sponsoring specific projects through grant-based financing as part of the LUKOIL Social and Cultural Projects Contest

Specialized divisions are responsible for the interaction, in particular the LUKOIL Public Relations Department, and surveying departments and public relations centers at LUKOIL subsidiaries.

The Russian Association of the Indigenous Peoples of the North is our constant partner, and a LUKOIL representative is a member of the Expert Advisory Board of this organization. In 2017 a cooperation agreement was signed between LUKOIL and the Federal Agency for Ethnic Affairs. A representative of the Company is a member of the working group responsible for putting forward amendments to the procedure for conducting ethnological expert reviews of geological exploration and production projects on the territories where the Indigenous Peoples traditionally live.

Compensation payments are made annually to indigenous residents on the territory of the Khanty-Mansi Autonomous Area-Yugra (LUKOIL-West Siberia,iterate LUKOIL-AK), as part of licensing obligations; and on the territory of the Nenets Autonomous Area (LUKOIL-Komi) within the framework of contracts with deer farms. We also implement charity projects (for example, the Red Tent project in the Nenets Autonomous Area).

Mechanisms for hearing the appeals of representatives from the Indigenous Peoples and non-governmental organizations have been created, and work is successfully carried out at LUKOIL Group subsidiaries on issues related to providing assistance to or safeguarding the rights of the Indigenous Peoples. In 2017 there were 62 appeals, which related to different areas of cooperation with the Company, assistance on compensation for violations of licensing obligations; and on the treatment of the representative of the Indigenous Peoples, the purchase of specialized equipment, and providing information on the activities and plans of the Company to support the Indigenous Peoples. No appeals were submitted that related to violations of the rights of the Indigenous Peoples.

**SUPPORT FOR INDIGENOUS PEOPLES IN RUSSIA UNDER THE LICENSING OBLIGATIONS OF LUKOIL GROUP SUBSIDARIES, RUB million**

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td>Khanty-Mansi Autonomous Area/Yugra</td>
<td>275.4</td>
<td>274.8</td>
<td>39.4</td>
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<tr>
<td>Nenets Autonomous Area</td>
<td>29.5</td>
<td>29.5</td>
<td>30.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>304.9</td>
<td>304.3</td>
<td>341.9</td>
</tr>
</tbody>
</table>

A children’s and youth sports school has been established under the auspices of the Handball Club “Zarya Kaspiya”, where around 900 young sportsmen regularly practice.

The Children’s Champions Cup of LUKOIL (LUKOIL Cup, [http://www.lukoilcup.com/](http://www.lukoilcup.com/)) is an international social project aimed at tackling racial intolerance and discrimination in football. The project unites the national associations and clubs of 40 countries and has over 3,500 participants. Children’s teams from countries in Europe and Asia and well-known football players participate in the project. The Project Ambassadors are stars from the final round of the tournament draw in 2017 was held in the main area of the Bulgarian club Levski (Sofia), with more than 1,000 people attending.

Indigenous peoples of the North

We share the principles set forth in the United Nations Declaration on the Rights of Indigenous Peoples, the United Nations Global Compact, and the UN World Conference Resolution on Indigenous Peoples. We seek to achieve a harmonious combination of our subsidiaries’ business activity on the ancestral habitats of indigenous peoples of the North (the Indigenous Peoples), thereby enabling them to retain their traditional lifestyle and business activity.

Interaction with the Indigenous Peoples is carried out within the framework of federal and regional Russian law, the licensing obligations of LUKOIL Group subsidiaries, and federal and regional support programs for the Indigenous Peoples. The main forms of interaction include:

- cooperation agreements between LUKOIL and the authorities of the regions
- economic agreements with the heads of territories on the traditional use of natural resources
- socio-economic development contracts with deer farms
- cooperation with non-governmental organizations

• sponsoring specific projects through grant-based financing as part of the LUKOIL Social and Cultural Projects Contest

Specialized divisions are responsible for the interaction, in particular the LUKOIL Public Relations Department, and surveying departments and public relations centers at LUKOIL subsidiaries.

The Russian Association of the Indigenous Peoples of the North is our constant partner, and a LUKOIL representative is a member of the Expert Advisory Board of this organization. In 2017 a cooperation agreement was signed between LUKOIL and the Federal Agency for Ethnic Affairs. A representative of the Company is a member of the working group responsible for putting forward amendments to the procedure for conducting ethnological expert reviews of geological exploration and production projects on the territories where the Indigenous Peoples traditionally live.

Compensation payments are made annually to indigenous residents on the territory of the Khanty-Mansi Autonomous Area-Yugra (LUKOIL-West Siberia, iterate LUKOIL-AK), as part of licensing obligations; and on the territory of the Nenets Autonomous Area (LUKOIL-Komi) within the framework of contracts with deer farms. We also implement charity projects (for example, the Red Tent project in the Nenets Autonomous Area).

Mechanisms for hearing the appeals of representatives from the Indigenous Peoples and non-governmental organizations have been created, and work is successfully carried out at LUKOIL Group subsidiaries on issues related to providing assistance to or safeguarding the rights of the Indigenous Peoples. In 2017 there were 62 appeals, which related to different areas of cooperation with the Company, assistance on compensation for violations of licensing obligations; and on the treatment of the representative of the Indigenous Peoples, the purchase of specialized equipment, and providing information on the activities and plans of the Company to support the Indigenous Peoples. No appeals were submitted that related to violations of the rights of the Indigenous Peoples.
The reporting boundaries comply with the consolidated financial reporting standards (IFRS) for 2017 relating to LUKOIL Group subsidiaries in which PJSC LUKOIL has a stake of over 50%, and which have significant environmental and social impacts on local communities.

The reporting boundaries additionally include subsidiaries involved in forming individual indicators due to the specifics of the respective activity and the corporate data collection and consolidation systems. The boundaries of individual indicators may not coincide with the reporting boundaries, due to differences in the data collection and consolidation systems. Information about the boundaries of these indicators is given in Appendix 6.

### Appendix 1

#### Reporting boundaries

The reporting boundaries mainly include subsidiaries involved in forming individual indicators due to the specifics of the respective activity and the corporate data collection and consolidation systems. The boundaries of individual indicators may not coincide with the reporting boundaries, due to differences in the data collection and consolidation systems. Information about the boundaries of these indicators is given in Appendix 6.

### Russian subsidiaries of PJSC LUKOIL

- **Exploration and production**
  - OOO LUKOIL-ARK
  - OOO LUKOIL-Western Siberia
  - OOO LUKOIL-Katanga Oilfield
  - OOO LUKOIL-Kore
  - OOO LUKOIL-Nizhnevolzhsk

- **Refining, trade and sales, transportation**
  - OOO LUKOIL-Aero
  - OOO LUKOIL-Aero Volgograd
  - OOO LUKOIL-Northwestern
  - OOO LUKOIL-Perm
  - OOO LUKOIL-Ust-Indigirka

- **Oil refinery**
  - OOO LUKOIL-Aero
  - OOO LUKOIL-Aero Volgograd
  - OOO LUKOIL-Aero Nizhniy Novgorod
  - OOO LUKOIL-Aero Perm
  - OOO LUKOIL-Aero Samara
  - OOO LUKOIL-Aero Surgut
  - OOO LUKOIL-Aero Tyumen
  - OOO LUKOIL-Aero Chelyabinsk
  - OOO LUKOIL-Aero Yekaterinburg

- **Power**
  - OOO LUKOIL-IEP
  - JSC BHET
  - OOO LUKOIL-

- **Trade**
  - OOO LUKOIL-Trade

- **Other**
  - OOO LUKOIL-Other

### Foreign subsidiaries of PJSC LUKOIL

- **Electric Power Engineering**
  - OOO LUKOIL-IEP
  - JSC BHET
  - OOO LUKOIL-

- **Other**
  - OOO LUKOIL-Other

### Russian subsidiaries of PJSC LUKOIL

- **Exploration and production**
  - OOO LUKOIL-Perm
  - PJSC LUKOIL

- **Refining, trade and sales, transportation**
  - OOO LUKOIL-Aero Volgograd
  - OOO LUKOIL-Aero Nizhniy Novgorod

- **Oil refinery**
  - OOO LUKOIL-Aero
  - OOO LUKOIL-Aero Volgograd
  - OOO LUKOIL-Aero Nizhniy Novgorod

- **Power**
  - OOO LUKOIL-IEP

- **Trade**
  - OOO LUKOIL-Trade

- **Other**
  - OOO LUKOIL-Other

### Foreign subsidiaries of PJSC LUKOIL

- **Electric Power Engineering**
  - OOO LUKOIL-IEP

- **Other**
  - OOO LUKOIL-Other
Appendix 2
GRI content index and individual GRI indicators

This report has been prepared in accordance with the GRI Standards (Core option)

2.1. GRI Index

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<td>Restatements of information</td>
<td>No restatements were carried out</td>
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<td>102-49</td>
<td>Changes in reporting</td>
<td>Appendix 1 Reporting boundaries</td>
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</table>

The reporting boundaries and scope have essentially not changed compared with the LUKOIL Group Sustainability Report for 2015-2016. The boundaries of indicators, which differ significantly from reporting boundaries, including due to their specifics, are given in the Report (see Appendix 1). Some indicators, whose boundaries differ slightly from reporting boundaries, are accompanied by relevant comments in the notes.

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<tr>
<td>102-51</td>
<td>Date of most recent report</td>
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<td>102-52</td>
<td>Reporting cycle</td>
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<td>102-53</td>
<td>Contact point for questions regarding the report</td>
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</table>

Contact information on issues related to the content of the Report:
Coordination Center for Corporate Activities
Tel: +7(495) 981-79-77, +7(499) 973-70-56. E-mail: csr@lukoil.com
Investor Relations Department
Tel: +7(495) 627-16-96. E-mail: ir@lukoil.com
Press Service
Tel: +7(495) 627-16-77. E-mail: media@lukoil.com

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<td>102-55</td>
<td>GRI content index</td>
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<td>External assurance</td>
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<td>4</td>
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| 201-3 | Defined benefit plan obligations and other retirement plans | Work-related performance incentives | 72 |

**GRI 202 Market Presence**

| 202-1 | Ratios of standard entry level wage by gender compared to local minimum wage | Work-related performance incentives | 72 |

The standard entry level wage in the Russian organizations of the LUKOIL Group is presented in comparison with the local minimum wages prevalent in the regions where the Company operates. Wages do not differ according to gender.

| 202-2 | Proportion of senior management hired from the local community | Compliance with employment entitlement rights | 69 |

**GRI 203 Indirect Economic Impacts**

| 203-1 | Infrastructure investments and services supported | External social policy priorities | 80 |
| 204-1 | Proportion of spending on local suppliers | Supply chain | 27 |

The data include only Russian organizations of the LUKOIL Group.

**GRI 302 Energy**

| 302-1 | Energy consumption within the organization | Energy efficiency and energy conservation | 37 |

**GRI 303 Water**

| 303-1 | Proportion of water withdrawal by source | Water use | 45 |
| 303-3 | Water recycled and reused | Water use | 45 |

Does not include the total volume of water recycled and reused as a percentage of total water withdrawal, since the methodology is under development.

**GRI 305 Emissions**

| 305-1 | Direct GHG emissions | Impact assessment | 33 |
| 305-5 | Reduction of GHG emissions | | |
| 305-6 | Emissions of ozone-depleting substances (ODS) | | |
| 305-7 | Nitrogen oxides (NOX), sulfur oxides (SOX) and other significant air emissions | Managing environmental impacts | 49 |

**GRI 306 Effluents and Waste**

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| 306-3 | Significant spills | Ensuring the integrity of production facilities | 58 |

**GRI 308 Supplier environmental assessment**

| 308-1 | Infrastructure investments and services supported | External social policy priorities | 80 |

**GRI 204 Procurement Practices**

| 204-1 | Proportion of spending on local suppliers | Supply chain | 27 |

The data include only Russian organizations of the LUKOIL Group.
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<tr>
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<td>103-2, 103-3</td>
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<td>Supply chain</td>
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<td>103-1, 103-2, 103-3</td>
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<td>308-1</td>
<td>New suppliers that were screened using environmental criteria</td>
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**GRI 401 Employment**

| 103-1, 103-2, 103-3 | The management approach and its components | Personnel | 68 |
| 103-1 | The Social Code; the HSE Department of PJSC LUKOIL; the Personnel Management Policy | Department responsible – Personnel Policy Department of PJSC LUKOIL | 68 |
| 401 | Employee turnover disclosure is presented. Disclosures related to new hires are not material for the Company. | Personnel | 68 |
| 401-2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | Work-related performance incentives | 72 |

**GRI 402 Labor/Management Relations**

| 402-1 | Minimum notice periods regarding operational changes | Appendix 2 GRI Index and Individual GRI Indicators | 97 |
| 402-2, 103-2, 103-3 | The management approach and its components | Employee health and safety | 60 |
| 403-1 | Workers representation in formal joint management-worker health and safety committees | Employee health and safety | 65 |
| 403-2 | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | Employee health and safety | 62-63 |
| 403-3 | Work-related performance incentives | Appendix 2 GRI Index and Individual GRI Indicators | 98 |

**GRI 403 Occupational Health and Safety**

| 404-2 | Programs for upgrading employee skills and transition assistance programs | Appendices 2 GRI Index and Individual GRI Indicators | 89 |
| 404-3 | Percentage of employees receiving regular performance and career development reviews | Staff development | 73 |
| 404-4 | The number of individuals that underwent training is presented in the Report. The number of training hours per year per employee by gender and by employee category is not available within the current reporting system. | Staff development | 74 |

**GRI 404 Training and Education**

| 411-1 | Incidents of violations involving rights of indigenous peoples | Indigenous peoples of the North | 85 |
| 412-1 | Operations that have been subject to human rights reviews or impact assessments | Compliance with employment entitlement rights | 72 |
| 413-1 | Operations with local community engagement, impact assessments, and development programs | | 78 |

**GRI 405 Human Rights**

| 419-1 | Non-compliance with laws and regulations in the social and economic area | Ethics and statutory compliance | 23 |

**GRI 406 Social Economic Compliance**
2.2 Individual indicators of GRI Standards

GRI 102. GENERAL INFORMATION

102-12 External initiatives

- The National Council for Professional Qualifications of the President of the Russian Federation
- The Council for Professional Qualifications in the Oil and Gas Industry of Russia

102-13 Membership of associations

- The Airport Civil Aviation Association – LUKOIL-AERO is a member
- The Bulgarian Oil and Gas Association
- The Macedonian-Russian Chamber of Commerce and Industry, the Chamber of Commerce of Montenegro
- The National Oil Committee of Serbia, which is a member of the WPCI (World Petroleum Council), Representatives from LUKOIL Serbia PLC Belgrade occupy positions in the management bodies (the Board of Directors and Executive Council); the Company does not provide substantial financing outside standard membership dues, and does not consider its membership as strategic
- The Turkish LPG Association (Türkiye LPG Derneği) and the Union of LPG distributors of Turkey (TOBB), LUKOIL subsidiaries participate actively in discussions of practical issues related to the development of the Turkish gas market
- The Belgian Petroleum Federation
- The Croatian Chamber of the Economy (Hrvatska gospodarska komora) – LUKOIL Croatia Ltd. does not occupy a position in the management bodies and regards its membership as strategic
- The Croatian Energy Regulatory Agency (Hrvatska energetska regulatorna agencija), LUKOIL Croatia Ltd. does not occupy a position in the management bodies and regards its membership as strategic
- The Council for Professional Qualifications in the Oil and Gas Industry of Russia

102-41 Collective bargaining agreements

- The Company’s obligations to its workforce are set forth in the Social Code of PJSC LUKOIL, specified in the course of collective negotiations with trade-union organizations, and enshrined in the Agreement between the Company and the unions, as well as in internal regulations. The freedom of collective negotiations is set out in the following points of the Agreement:
  - “2.5.7. To provide representatives of trade-union organizations with the ability to participate in the work of the management bodies of the controlled organizations”
  - “2.5.9. To adopt internal regulations and decisions with due consideration for the opinions of (by agreement) the union committee (council) of the corresponding trade-union organization in cases stipulated by the Russian Labor Code, the Industry Agreement, this Agreement, and the collective agreements of the controlled organizations”
- Trade unions are also granted the right to participate in management decision-making processes on an equal basis with the Company’s management (members of the Board of Directors).
### 102-45 Entities included in consolidated financial statements

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<tr>
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<th>Country/Region</th>
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<td>Russia</td>
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<tr>
<td>OOO LUKOIL-Aero Domodedovo</td>
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<tr>
<td>OOO LUKOIL-Aero Nizhny Novgorod</td>
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<td>AO LUKOIL Chernomyshe</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO LUKOIL-PERSONNEL</td>
<td>Russia</td>
</tr>
<tr>
<td>AO Maritime Agency Novostrik</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO Sports and cultural complex</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO Teptovelova Genaratica G. Vozduskhogo</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO TZK-Akhangelski</td>
<td>Russia</td>
</tr>
<tr>
<td>AO LUKOIL-Aero-Shinemetevo</td>
<td>Russia</td>
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<tr>
<td>OOO Gas-Oil tracking</td>
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</tr>
<tr>
<td>ZAO KalmTranset</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO KNKG</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO Oil Company Vostok NAD</td>
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<tr>
<td>OOO PermTOTInvest</td>
<td>Russia</td>
</tr>
<tr>
<td>AO SOVEKS</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO SP Volgadominoil</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO TSK Volga</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO TSK Severo-Zapad</td>
<td>Russia</td>
</tr>
<tr>
<td>OOO TSI Tsentralnii Kazmetrebegaz</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Accounting and Finance Europe s.r.o</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Americas Corporation</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Asia PACIFIC PTE LTD</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Aviation Bulgaria EOOD</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Belgium N.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Benelux B.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Capital Markets Ltd</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Croatia Ltd.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Eurasia Petrol Anonim Sirketi</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Europe Holdings B.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Hamburg GmbH</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Holding B.V.</td>
<td>Russia</td>
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<tr>
<td>LUKOL Holding GmbH</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL International Finance B.V.</td>
<td>Russia</td>
</tr>
<tr>
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<td>Russia</td>
</tr>
<tr>
<td>LUKOL ISRAEL LIMITED (Cyprus)</td>
<td>Russia</td>
</tr>
<tr>
<td>BRAZOS PETROLEUM OVERSEAS LIMITED</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Istasyon Isletmekiciz Limited Sirketi</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL itaka S r.o.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL MACEDONIA LTD Skopje</td>
<td>Macedonia</td>
</tr>
<tr>
<td>LUKOL MONTENEGRO DOO</td>
<td>Montenegro</td>
</tr>
<tr>
<td>LUKOL Netherlands B.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Nefteboln Burgas AD</td>
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### 102-45 Entities included in consolidated financial statements

<table>
<thead>
<tr>
<th>Entity Name</th>
<th>Country/Region</th>
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<tbody>
<tr>
<td>LUKOL NORTH AMERICA LLC</td>
<td>USA</td>
</tr>
<tr>
<td>LUKOL International Upstream Holding B.V</td>
<td>Russia</td>
</tr>
<tr>
<td>Ehs El Malaha Petroleum Company (EHSHPETCO)</td>
<td>Egypt</td>
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<tr>
<td>LUKOL International Secondment B.V.</td>
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</tr>
<tr>
<td>LUKOL International Upstream West Inc.</td>
<td>Russia</td>
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<tr>
<td>LUKOL MID-EAST LIMITED</td>
<td>Russia</td>
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<tr>
<td>LUKOL Overseas Aryan Ltd</td>
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<tr>
<td>LUKOL Overseas Atash B.V</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL SEYCHELLES ISLAND EGYPT LTD</td>
<td>Seychelles</td>
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<tr>
<td>LUKOL Overseas Etinde Cameroon Sarl</td>
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<tr>
<td>LUKOL Overseas GHANA TANO LIMITED</td>
<td>Nigeria</td>
</tr>
<tr>
<td>LUKOL Overseas Iraq Exploration B.V.</td>
<td>Iraq</td>
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<tr>
<td>LUKOL Overseas Karachaganan B.V.</td>
<td>Russia</td>
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<tr>
<td>LUKOL Overseas Kumkol B.V</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Overseas Nigeria Limited</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Overseas North Shelf AS</td>
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</tr>
<tr>
<td>LUKOL Overseas Riyadh Ltd</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Overseas Shah Deniz Ltd</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Overseas Shah Deniz Midstream Ltd</td>
<td>Russia</td>
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<tr>
<td>LUKOL Overseas Supply and Trading Ltd.</td>
<td>Russia</td>
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<tr>
<td>LUKOL Overseas Uzbekistan Ltd</td>
<td>Russia</td>
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<tr>
<td>LUKOL SAUDI ARABIA ENERGY LIMITED</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>LUKOL UPSTREAM MEXICO, S. de R.L. de C.V.</td>
<td>Mexico</td>
</tr>
<tr>
<td>LUKOL Uzbekistan Operating Company LLC</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>SOYUZNEFTEGAZ VOSTOK limited</td>
<td>Russia</td>
</tr>
<tr>
<td>TURGAI PETROLEUM JSC</td>
<td>Kazakhstan</td>
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</table>

**Foreign organizations of the LUKOIL Group**

<table>
<thead>
<tr>
<th>Organization Name</th>
<th>Country/Region</th>
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</thead>
<tbody>
<tr>
<td>LUKOL Bulagia Bunker EOOD</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>LICARD Euro Services GmbH</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Inter-Card Bel</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKARCO B.V. (group of sub-consolidated reporting)</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKARCO Finance B.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL International GmbH (group of sub-consolidated reporting)</td>
<td>Russia</td>
</tr>
<tr>
<td>AC MANAGEMENT COMPANY LIMITED</td>
<td>Russia</td>
</tr>
<tr>
<td>Akpter Gaz A.S.</td>
<td>Azerbaijan</td>
</tr>
<tr>
<td>Aiderizn Boru Hatari Naklyat ve Isletmekiciz lc ve Dis Tic. Ltd Sti</td>
<td>Turkey</td>
</tr>
<tr>
<td>LUKOL Capital Markets Ltd</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Croatia Ltd.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Eurasia Petrol Anonim Sirketi</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Europe Holdings B.V.</td>
<td>Russia</td>
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<tr>
<td>LUKOL Hamburg GmbH</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Holding B.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Holding GmbH</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL International Finance B.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Investments Cyprus Ltd</td>
<td>Cyprus</td>
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<tr>
<td>LUKOL Israel Limited (Cyprus)</td>
<td>Cyprus</td>
</tr>
<tr>
<td>BRAZOS PETROLEUM OVERSEAS LIMITED</td>
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</tr>
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<td>LUKOL Istasyon Isletmekiciz Limited Sirketi</td>
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<tr>
<td>LUKOL itaka S r.o.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Macedonia Ltd Skopje</td>
<td>Macedonia</td>
</tr>
<tr>
<td>LUKOL Montenegro DOO</td>
<td>Montenegro</td>
</tr>
<tr>
<td>LUKOL Netherland B.V.</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Nishtolm Burgas AD</td>
<td>Russia</td>
</tr>
<tr>
<td>LUKOL Pan Americas, LLC</td>
<td>USA</td>
</tr>
<tr>
<td>LUKOL LUBRICANTS EAST EUROPE S.R.L.</td>
<td>Europe</td>
</tr>
<tr>
<td>LUKOL Lubricants Europe GmbH</td>
<td>Europe</td>
</tr>
<tr>
<td>LUKOL Lubricants Mexico S de R.L. de C.V.</td>
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</tr>
<tr>
<td>LUKOL Lubricants Ukraine, TOV</td>
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</tr>
<tr>
<td>LUKOL Marine Lubricants DMCC</td>
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<td>LUKOL Marine Lubricants Germany GmbH</td>
<td>Germany</td>
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<tr>
<td>LUKOL Marine Lubricants USA INC.</td>
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<td>LUKOL Technology Services GmbH</td>
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</table>

**Entities included in consolidated financial statements**

<table>
<thead>
<tr>
<th>Entity Name</th>
<th>Country/Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>LUKOL Lubricants (China) Co., Ltd.</td>
<td>China</td>
</tr>
<tr>
<td>LUKOL Lubricants Central Asia LLP</td>
<td>USA</td>
</tr>
</tbody>
</table>
In the process of preparing reporting information, we performed an analysis of whether the Company’s activity complies with the Sustainable Development Targets of the 2030 Agenda for Sustainable Development and with the procedure for identifying material topics in accordance with GRI Standards.

The procedure for identifying material topics includes an analysis of the following sources:
- topics raised by the Company’s management and senior executives during their public speeches and presentations in Russia and abroad
- a survey of the heads of the main structural departments
- queries for information received from stakeholders during the reporting year
- personal visits with the representatives of stakeholders in various formats (round tables, conferences, working meetings, etc.)
- publications on the Company in business and public-affairs periodicals, as well as in internet publications
- the reports of Russian and foreign oil & gas companies that are commensurate in scale
- analyzing events that are important to the industry which occurred during the reporting period, including legislative requirements on the disclosure of non-financial information, the requirements of financial marketplaces, etc.
- monitoring non-financial reporting systems and the main initiatives in this area

The Report also reflects certain indicators of the Environmental Responsibility Rating of Oil & Gas Companies (WFP-Creon), as well as the indices Responsibility and Openness and Vector of Sustainability (RUE).

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**Minimum notice periods regarding operational changes**

<table>
<thead>
<tr>
<th>Region</th>
<th>Minimum notice period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>3 months</td>
</tr>
<tr>
<td>Russia, Azerbaijan, Bulgaria, Moldova, Serbia, and Uzbekistan</td>
<td>2 months</td>
</tr>
<tr>
<td>Austria</td>
<td>6 weeks</td>
</tr>
<tr>
<td>Germany, Switzerland, Italy, Macedonia, Norway</td>
<td>1 month</td>
</tr>
<tr>
<td>Romania</td>
<td>For specialists 20 days; for executives 40 days</td>
</tr>
<tr>
<td>Finland, Turkey</td>
<td>14 days</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>15 business days or 1 month</td>
</tr>
<tr>
<td>Belarus</td>
<td>7 days (in the event of staff reductions or the liquidation of the enterprise — 2 months)</td>
</tr>
<tr>
<td>Egypt</td>
<td>1 week</td>
</tr>
<tr>
<td>Georgia</td>
<td>3 days</td>
</tr>
<tr>
<td>Iraq, Montenegro, Mexico</td>
<td>No notice period is established for employees</td>
</tr>
<tr>
<td>The USA</td>
<td>No universal period has been established for substantial changes to working conditions, however, under certain circumstances the law may prescribe special procedures and periods. For example, during mass staff reductions, a notice period of at least two months</td>
</tr>
</tbody>
</table>

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A key document in the agreement is the Agreement between the Employer and the Trade-Union Association of PJSC LUKOIL for 2016–2020.

Section 6, Health, Safety, and the Environment of this document includes the obligations of PJSC LUKOIL and its subsidiaries to preserve the health and safety of their employees, including:
- financing measures to improve working conditions
- informing employees about safety related issues (working conditions, appropriate personal protection, etc.)
- registering and tracking the circumstances and causes of accidents, as well as ensuring that union representatives can participate in investigations
- supporting the activity of the union association’s technical labor inspection and union safety officers
- supporting the activity of the social insurance commission
- conducting safety and environmental competitions

---

**Employee Skills Development Programs**

**Type of training**

<table>
<thead>
<tr>
<th>Training programs and courses</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-house training courses</td>
</tr>
<tr>
<td>External training or education</td>
</tr>
<tr>
<td>Professional training in MBA, EMBA, DBA programs</td>
</tr>
<tr>
<td>The Company pays 50% of the cost of employee education</td>
</tr>
</tbody>
</table>

The employee receives an additional professional education, including a postgraduate degree, where the employer is not the initiator, then educational leave is granted, and the respective employee receives a guarantee that they will not lose their positions while studying.

**External Training Programs to Develop Managerial and Professional Competencies**

**Program**

<table>
<thead>
<tr>
<th>Frequency: educational institution</th>
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</thead>
<tbody>
<tr>
<td>Master’s in Business Administration — Oil &amp; Gas Management</td>
</tr>
<tr>
<td>Development of the company’s management resources</td>
</tr>
<tr>
<td>Professional training for the general directors of LUKOIL Group subsidiaries</td>
</tr>
<tr>
<td>Head of Oil and Gas Production Department</td>
</tr>
<tr>
<td>Training experts in the independent assessment of professional qualifications</td>
</tr>
</tbody>
</table>
## Appendix 3

### Independent Limited Assurance Report on the LUKOIL Group Sustainability Report 2017

**Audited entity:** PJSC LUKOIL, Registration No. in the Unified State Register of Legal Entities 1027700125628.

**Independent auditor:** JSC “KPMG”, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity, Registration No. in the Unified State Register of Legal Entities 1027700125628.

### Introduction

We were engaged by the Management of PJSC LUKOIL (the “Management”) to perform an assignment resulting in the issue of an independent limited assurance report on the LUKOIL Group (the “Group”) Sustainability Report 2017 (the “Report”) with an independent limited assurance conclusion that, based on our work performed, nothing has come to our attention that causes us to believe that Management’s statement that the Report is prepared, in all material respects, based on the GRI Standards and is free from material misstatement, is fairly stated.

### Management’s Responsibilities

Management is responsible for the preparation and presentation of the Report that is free from material misstatement in accordance with the GRI Standards, and for the information and statements contained therein. This responsibility includes designing, implementing and maintaining internal control system relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error. It also includes: determining the Group’s objectives in respect of sustainable development performance and reporting, including the identification of key stakeholder groups and their material issues; selecting applicable requirements of the GRI Standards; preventing and detecting fraud, identifying and ensuring that the Group complies with the laws and regulations applicable to its activities; selecting and applying appropriate policies, making judgments and estimates that are reasonable in the circumstances, maintaining adequate records and preparing the Report and the reasonableness of estimates made by Management.

### Our Responsibilities and Applicable Standards

Our responsibility is to perform procedures to obtain evidence in respect of the Report prepared by Management, and to issue a report with an independent limited assurance conclusion regarding Management’s statement in respect of the Report based on the evidence obtained. We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 Assurance Engagements—Other Than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

ISAE 3000 requires that we plan and perform our procedures to obtain a reasonable level of assurance about whether Management’s statement that the Report is prepared, in all material respects, based on the GRI Standards and is free from material misstatement, is fairly stated.

### Our Independence and Quality Control

We have complied with the independence and ethical requirements established by the Rules on Independence of Auditors and Audit Firms and the Code of Professional Ethics for Auditors approved by the Audit Council of the Ministry of Finance of the Russian Federation and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which are based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply the International Standard on Quality Control 1, and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Procedures Performed

The procedures selected, and our determination of the nature, timing and extent of these procedures, depend on our professional judgment, including the assessment of risk of material misstatement during the preparation of the Report, whether due to fraud or error, our understanding of the Group’s activities, as well as other engagement circumstances.

In making these risk assessments, we considered the internal control system relevant to the Group’s preparation of the Report, in order to design procedures that are appropriate in the circumstances, but not for the purposes of expressing an conclusion as to the effectiveness of the Group’s internal control.

The procedures we developed based on the performed risk assessment are a combination of inspections, calculations, analytical procedures and inquiries.

Our engagement also included: assessing the appropriateness of the information included in the Report and the suitability of the GRI Standards used by Management in preparing the Report in the circumstances of the engagement; evaluating the appropriateness of the methods, policies and procedures used in the preparation of the Report and the reasonableness of estimates made by Management.

### Change EP and OS Personnel

- LUKOIL West Siberia LLC, Kogalym, Langepas,
- LUKOIL, Komsomol, Uzinsk,
- LUKOIL, Nefteyugskneftegazprom, Nefteyugsk,
- LUKOIL, Nefteyugskneftegazprom, Nefteyugsk,
- LUKOIL, Nefteyugskneftegazprom, Nefteyugsk,
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- LUKOIL, Nefteyugskneftegazprom, Nefteyugsk,
Appendix 4

Conclusion of the RUIE Council for Non-Financial Reporting on the public assurance review of the LUKOIL Group Sustainability Report for 2017

At the request of PJSC LUKOIL (the "Company", the "Group", "LUKOIL"), the Council for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (the "Council"), established by a decision of the Management Committee Bureau (Resolution dated 28 June 2007), has reviewed the LUKOIL Group Sustainability Report for 2017 (the "Report").

The Company asked the RUIE Council to perform a public assurance review. The Council was asked to provide an opinion on the relevance and completeness of information about the company’s activity disclosed in the Report, in accordance with the principles of responsible business practices contained in the Social Charter of Russian Business, and whether it complies with the provisions of the UN Global Compact as well as Russian and international social responsibility standards.

From 28 May to 18 June 2018, Council members studied the Report provided by the Company and prepared this Conclusion in accordance with the Regulations for the Public Assurance Review of Corporate Non-Financial Reporting approved by the Council. The Council members have the necessary qualifications in the field of corporate social responsibility, sustainable development, and non-financial reporting, comply with the ethical requirements of independence and impartiality, and are expressing their personal expert opinion rather than that of the organizations they represent.

The Report was assessed based on the following criteria for the completeness and relevance of information contained in the Report:

- Information is considered relevant if it reflects the Company's activities in implementing the principles of responsible business practices of the Social Charter of Russian Business (www.rspp.ru).
- Information is considered complete if the company has comprehensively presented its activity in the Report, including its underlying values and strategic benchmarks, its management system and structure, achievements and key performance results, and the system for stakeholder engagement.

Anton Ivanovich Oussov
JSC "KPMG"
Moscow, Russia
17 May 2018
CONCLUSIONS

Based on our analysis of the Report, public information available on the Company’s official website, and a collective discussion of the independent assessment of the Report by the members of the RUJE Council on Non-Financial Reporting, the Council confirms the following:

- The LUKOIL Group Sustainability Report for 2017 contains relevant information on key areas of responsible business practices in accordance with the principles of the Social Charter of Russian Business, and provides sufficient comprehensive disclosure of the Company’s activity in these areas.
- The recommendations of the RUJE Council, based on the public assurance review, of the Company’s previous report for 2015–2016, were reflected in the 2017 Report in the form of greater disclosure of information on integrating sustainability goals into the Company’s strategy and the consolidation of data at Group level, including Russian and foreign assets.

The Company’s 2017 Report contains relevant information in respect of the following aspects of responsible business practices:

**Economic freedom and responsibility:**

The Report discloses information on the Group’s Russian and foreign assets, includes key financial and production performance results, presented over time, and describes the Company’s key lines of business, operating footprint, and competitive advantages. The approval of the LUKOIL Group Strategic Development Program for 2018–2027 is reported, which reflects the sustainability priorities, sets out the goals and objectives for the entire Company in this area, and correlates them with UN Sustainability Goals. The key projects of the reporting year are listed, and include the development of renewable energy, the development of hard-to-recover reserves, and the utilization of associated petroleum gas (APG). The Report provides information on work to improve the efficiency of production activity across the value creation chain. Issues related to ensuring product quality and management in this area, in accordance with international standards, are covered. The structure for managing aspects of sustainability and sustainability risks is presented vertically, from Board to subsidiary level. Information is given on updates to in-house regulations designed to improve activity in this area; on new management approaches to planning targeted corporate programs in health, safety and the environment; and on confirmation that the management system in this area complies with ISO 14001 and OHSAS 18001. The Report highlights ongoing efforts to implement the provisions of the LUKOIL Group Antimonopoly Policy. The Report contains a Company statement on compliance with anti-corruption legislation in the countries where the Company operates.

**Business partnerships:**

The Report covers the principles, programs, and topics of interaction with main groups of stakeholders. Information is given on how the Company meets its obligations to shareholders and investors, including issues related to ensuring transparency, regular reporting, implementing the dividend policy, and also responding to queries received from investment and financial institutions and analytical agencies. The Report covers participation by the Company’s representatives in the advisory panels of ministries related to the oil and gas sector, and in the drafting of legislation and providing appraisals of legislative initiatives. It also covers interactions with the Company’s key social partner, the International Association of LUKOIL Group Trade Union Organizations, including on issues related to improving working conditions. Information is given on the main mechanisms of the HR policy, training programs and personnel development, and social programs for employees. The Report covers how the procurement of goods, work, and services is organized through open tenders and the selection of suppliers in accordance with the requirements of corporate Regulations. Information is also provided on support for local suppliers and contractors. The Report notes that the Company monitors the activity of contracting organizations for compliance with the health, safety, and environmental requirements stipulated in the contracts with these contractors. The Company reports that in the reporting year it opened an online store to sell lubricants, which makes the Company’s products available to consumers worldwide. The main mechanisms for interacting with consumers and receiving consumer feedback are cited. The Report provides information on the Company’s participation in international and Russian public organizations and in international projects, programs, and initiatives.

**Human rights:**

The Report states that in the reporting year the corporate human rights policy was consolidated in a new version of the Social Code. In all the countries where it operates, the Company recognizes the importance of observing the UN Universal Declaration of Human Rights, including rights pertaining to labor, the right to a healthy environment, and the rights of indigenous minorities and special community groups. The main mechanisms are described for monitoring and assessing activity in connection with human rights compliance. The Report contains information on observing employee rights to free association, which are exercised through the activities of trade unions and through concluding collective agreements in the majority of Russian and foreign organizations, with a broad coverage of employees. Information is provided on compliance with labor rights and the observance of social guarantees. Information is also given on the Company’s obligations, as contained in the Social Code, to support the national and cultural identities of indigenous peoples living in areas where the Company operates, as well as the mechanisms for their implementation, including partnership agreements, joint working bodies on issues related to the indigenous peoples of the North, programs to protect their rights and legal interests, and the provision of support.
Environmental protection:
The Report presents the implementation results of the Environmental Security Program for 2014-2017, and gives the key results for the reporting year. The approval of the Environmental Security Program for 2018-2020 is mentioned. The main measures are listed for reducing emissions of pollutants, curtailing APG flaring, and developing “green” energy based on renewables. The Company’s approach to effective water management and wastewater removal are covered. Information is included on Russian assets created as a result of land reclamation. The Report also contains information on oil spills and the scope of the measures taken to mitigate risks in this area, including more stringent requirements for contracting organizations. The principles and approaches to preserving biodiversity, including in the Arctic Zone, are described. The Report provides a wide range of aggregate and relative indicators on the environmental impacts of the Company’s production activities. Information is provided on energy conservation measures, the implementation of energy-saving technologies, and installations of the first charging stations for electric automobiles at Company filling stations. The goals and objectives of the Energy Conservation Program of LUKOIL Group Subsidiaries in Russia for 2018 and for the period from 2019-2020 are presented. The Report states that Group organizations have certificates confirming compliance with ISO 50001 standards. Information is included on the performance of climatic risk assessments when taking investment decisions and creating strategic, medium-term, and annual plans. Data are presented on measures taken together with regional and local authorities and non-governmental organizations during the Year of Ecology. Support for environmental education programs in Romania, Bulgaria, and Uzbekistan is reported.

Participation in local community development:
The Report covers the priorities and mechanisms for implementing the social policy and the Company’s interactions with local communities. Mention is made of the 27 partnership agreements in place in the Company’s areas of operation. The Report includes information on support for projects and initiatives of local communities, as part of a Competition of Social and Cultural Projects implemented by the Company’s subsidiaries and the LUKOIL Charity Foundation in the categories Environment, Spirituality and Culture, and Sport. The key elements of the system for managing charity activity are indicated, including data on the Company’s expenditure in this area. Information is provided on Company projects to support social infrastructure, education, healthcare, culture, and sport. Examples are given of social projects that will be implemented by the Company’s foreign subsidiaries.

CONCLUDING REMARKS
Overall, the Report reflects the LUKOIL Group’s responsible business practices, management system, and the Company’s impact on society and the environment. The Report uses an integrated approach to disclose information across key lines of business, including a substantial number of performance indicators related to the economic, environmental, and social aspects of the Company’s operations. The Report provides information on the implementation of the Company’s strategy, and how the Company’s performance is in line with UN Sustainable Development Goals.

The Report was drafted based on recommendations, standards, and guidelines used both in Russia and internationally (the Global Reporting Initiative (GRI), the UN Global Compact, the Social Charter of Russian Business, and the Corporate Reporting Guidelines for Sustainable Development Goals), which ensures consistency across a number of reporting cycles and comparability with the reports of other companies.

The 2017 Report is the Company’s eighth non-financial report and its first annual report, which attests to the consistent development of the Company’s reporting process, including in relation to the provision of time-sensitive information. The Company uses various methods to make independent assessments and to verify reporting information (professional audits and public assurance), thus reaffirming its responsible approach to ensuring the quality of information presented.

RECOMMENDATIONS
While noting the merits of the Report, the Council draws the Company’s attention to a number of aspects that are important for stakeholders concerning the relevance and completeness of the information disclosed, and recommends taking them into account in future reports.

The Council notes that the recommendations elaborated on the basis of the analysis of the Company’s previous reports will be useful in the future reporting practices of the Group.

The Report compares the results of the Company’s activities with UN Sustainable Development Goals, in line with modern global best reporting practices. It is advisable to continue to analyze the Company’s activity for compliance with UN Goals, to expand on this information, and to demonstrate how the business results contribute towards attaining the Company’s strategic benchmarks and progressing towards the global goals and objectives relevant for the Company and stated in the 2017 Report.

We recommend that the Company’s sustainable development goals defined in the Report, as well as corresponding strategic objectives, be accompanied in future by the plans for their implementation in the next reporting period and over the medium term, with measurable targets stated in the Report.

The Report indicates that information requests from various stakeholders are taken into account during the Report’s preparation, including the indicators to be used for independent assessments and the compilation of indices and ratings. In this regard, attention should be paid to the Company’s performance indicators, which include labor productivity, and this information should be incorporated into the report in future.
It is stated in the Report that the Company applies a procedure for identifying topics of interest based on GRI Standards, and the elements of this procedure are indicated (here special mention is made of the survey of the directors of main structural divisions). It would also be prudent to describe the tools for taking stakeholder opinions into account when drawing up lists of material topics, and to set out the procedure for interacting with them in this regard.

In the previous period the Company gained experience in holding discussions with stakeholders in its areas of operation on resolving social issues and the development of local communities. If this practice continues going forward, it should be covered in reports, with an emphasis made on the creation and implementation of the Company’s social programs. This type of information serves to confirm the effectiveness of the stakeholder cooperation and feedback mechanisms employed by the Company.

In view of increasing attention being paid by numerous stakeholders, both in Russia and globally, to issues related to business ethics and corporate anti-corruption practices, it would be worth expanding the scope of information regarding this topic in future reports.

The Company has gained extensive experience in the area of sustainability reporting, including the best practices for showcasing the key results of activity at a regional level. This experience should be leveraged in the future, with the most salient information on the Company’s performance in the areas of operation of the LUKOIL Group organization being included in reports.

The RUIE Council for Non-Financial Reporting, having given the Report a positive assessment, supported the Company’s commitment to responsible business practices, and noted the reporting consistency, confirms that the LUKOIL Group 2017 Sustainability Report has passed public assurance.
Appendix 5

Abbreviations

FS – filling station
NIR spectrometer – near-infrared spectrometer
RES – renewable energy sources
VMI – voluntary medical insurance
IMN – indigenous minorities of the North
KPIs – key performance indicators
SMMW – statutory minimum monthly wage
NAA – Nenets Autonomous Area
OR – oil refinery
OMA – oil mining administration
EIA – environmental impact assessment
OOO – limited-liability company
HSE – health, safety, and the environment
APG – associated petroleum gas
IEC – industrial environmental control system
DLS – distance learning system
MM – the mass media
JV – joint venture
SO – the standards of the organization
SPP – solar power plant
FEC – fuel and energy complex
TPP – thermal power plant
CHPP – combined heat and power plant
KMAA – Khanty-Mansi Autonomous Area
SG – Sustainability Targets (UN Agenda 2030)
EBITDA – Earnings before Interest, Taxation, Depreciation and Amortization
ESG – Environmental, Social, and Corporate Governance
SDGs – Sustainable Development Targets

Names of organizations

IATUO – International Association of Trade-Union Organizations of PJSC LUKOIL
ILO – the International Labour Organization
UN – United Nations
OPEC – Organization of Petroleum-Exporting Countries
PJSC LUKOIL – Public Joint-Stock Company LUKOIL
UNDP/GEF – United Nations Development Program (UNDP)/Global Environment Facility (GEF)
R&D – research and development
RR – OAO Russian Railways
RUIE – Russian Union of Industrialists and Entrepreneurs
CDP – Carbon Disclosure Project
GRI – Global Reporting Initiative
WWF – World Wildlife Fund

Units

BOE – barrel of oil equivalent
p.p. – percentage point

Appendix 6

Reporting boundaries of individual indicators

REPORTING BOUNDARIES OF INDIVIDUAL INDICATORS ARE PRESENTED ON THE WEBSITE OF THE INTERACTIVE REPORT
Contact Information on the Report

LUKOIL Company welcomes your feedback. Your feedback, suggestions and comments on the Report’s contents will help us identify the topics and indicators that are of the greatest interest, and balance properly the amount of information published, when the Company prepares the next Sustainability Report.

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