

CORPORATE RESPONSIBILITY

ENVIRONMENTAL PROTECTION

2017 RESULTS

Improved key environmental impact indicators:

- Reduced air emissions: achieved APG utilization rate over 95%.
- Reduced contaminated land area, reduced water consumption for own needs.

2018 PRIORITIES

- Lower pollutant and greenhouse gas emissions to the atmosphere.
- Zero environmental impact from emergencies and incidents.
- Lower consumption of water resources.
- Production waste disposal to generation ratio of not less than 1.

Being aware of its social account for the rational use of natural resources and preserving the environment, LUKOIL seeks to conform with the highest environmental protection standards. The Company's responsible business practices were recognized by winning the Best Socially-Oriented Oil and Gas Company Contest held by the Russian Ministry of Energy at the 7th St. Petersburg International Gas Forum.

Key environmental impact indicators were improved in 2017 resulting in the attainments of all targets set by the 2014–2018 Environmental Safety Program earlier than planned.

The key achievement of 2017 was the higher associated petroleum gas (APG) utilization rate of 95.4% across the Group driven by the upgrades and new facilities commissioning in Timan-Pechora and in the Caspian in 2017.

Reduced gas flaring helped cut air pollution. In addition, in the reporting year water consumption for own needs was reduced by 9.6% and contaminated land area by 23.5%. The share of contaminated wastewater in the total water discharge remained low at 0.5%, and production waste disposal rate was equal to waste generation rate.

The new 2018–2020 Environmental Safety Program of LUKOIL Group Entities was developed in 2017. It comprises over 900 initiatives targeting:

- further increase of APG utilization rates
- reduce pollutant and greenhouse gas emissions to the atmosphere
- zero contaminated wastewater discharge to land
- lower water intake from the natural water reservoirs
- reclamation of disturbed or contaminated land
- diagnostics, major repairs, and replacement of pipelines, etc.

CLIMATE CHANGE

LUKOIL recognizes the importance of preventing global climate change and supports Russia's contribution to the global effort to reduce greenhouse gas emissions. The underlying concept of the system for monitoring, reporting, and verifying the amount of greenhouse gas emissions in Russia implies introducing unified methods and implementing measures that will help reduce the carbon intensity of the Russian economy. LUKOIL is involved in developing the statutory and regulatory framework governing greenhouse gas emissions and plans its operations in accordance with the decisions made.

Greenhouse Gas Emissions

In 2017, the total direct greenhouse gas emissions by the Group's Russian entities reduced by 0.5% to 31,138 thousand tonnes of CO₂ equivalent.

In 2016–2017, the Company enhanced the corporate GHG emissions tracking and management system. Calculations of the total direct greenhouse gas emissions were made using the methodology of the Russian Ministry of Natural Resources and Environment.

To achieve the target greenhouse gas emission reduction, the Company takes comprehensive efforts in a number of areas:

- **Increased APG utilization.** Every year, the Company builds new and upgrades existing utilization facilities, invests in pipeline and infrastructure construction. These efforts help to boost APG utilization rates and, accordingly, reduce direct CO₂ emissions.

- **Alternative power generation.** LUKOIL develops alternative power generation projects to reduce its environmental footprint and diversify its business. LUKOIL has a large portfolio of renewable power generation facilities that accounts for 6% of commercial power generated by the Company in 2017.

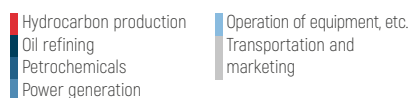
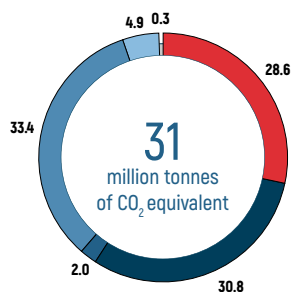
The Company supported the launch of the first Renewable Energy Department in Russia at the Gubkin Russian State University of Oil and Gas to train personnel and develop competencies in renewable energy.

- **Energy efficiency.** The Company implements the 2017–2019 Energy Conservation Program to improve its energy efficiency. Twenty-seven LUKOIL Group subsidiaries implemented the ISO 50001:2011 compliant energy management system.

GHG Emissions Disclosure

Since 2013, LUKOIL has been participating in the Carbon Disclosure Project (CDP), an international initiative for disclosure of greenhouse gas emissions. The Company's 2017 CDP report earned PJSC LUKOIL a "D" score for its commitment to address climate change, which corresponds to the average score for Russian companies.

GHG emissions in 2017, %



GHG (CO₂) emissions, million tonnes



ENVIRONMENTAL SPENDING

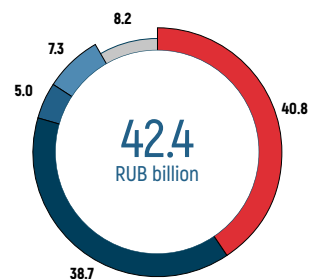
LUKOIL's environmental spending in Russia totaled RUB 424 billion in 2017, down 20.5% year-on-year, mainly due to the completion of main APG utilization facilities construction works. Pipeline diagnostics and replacement also accounted for a significant portion of environmental expenditures.

HSE CONSIDERATIONS IN THE SELECTION OF SUPPLIERS AND CONTRACTORS

In accordance with its internal regulations, potential contractors undergo a pre-qualification process to verify their compliance with the established requirements for health, safety, and environment (HSE) of PJSC LUKOIL. LUKOIL's corporate standards set out mandatory requirements for contractors on HSE, fire safety, and emergency prevention activities that have to be adhered. Compliance with such requirements, that are in integral part of a contract with a contractor, is audited during the pre-qualification process that contractors undergo prior to taking part in the competitive tender procedures. LUKOIL Group entities check the compliance with the established HSE requirements by monitoring contractor's performance at the Company's facilities.

In 2017, in order to mitigate risks related to contractors failing to comply with LUKOIL's HSE requirements, amendments to the Regulations on Holding Tenders to Select Suppliers and

Environmental expenditures (capital and operating) in 2017, %



Contractors of LUKOIL Group entities were prepared, tightening the requirements to bidders. In particular, additional assessment criteria were added:

- fire occurrences due to the bidder's fault in the last three years
- existence of procedures to control the conditions of workplace, equipment, and tools, as well as the safety of operations
- experience of providing services for LUKOIL Group entities with zero incidents.

LUKOIL launched the process of mandatory industrial safety certification of contractors' managers using its distance-learning system, and implemented the Guidelines for Technical Auditing of Contractors.

THE GROUP'S KEY ENVIRONMENTAL EFFORTS

WATER

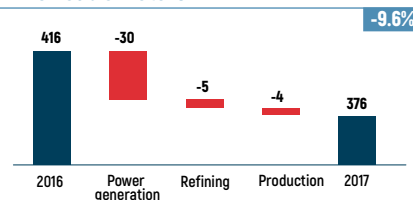
RATIONAL USE OF WATER RESOURCES, PREVENTION OF WATER POLLUTION

The main volume of water consumption for own needs (about 65%) is consumed by business sector «Power generation» to provide generating facilities. The business sector «Production» accounts for 26% of water consumption for own needs.

KEY 2017 INITIATIVES

- Decommissioning of the outdated equipment at the Krasnodar CHPP.
- Construction of water treatment facilities at the Yaregskoye field.

Water consumption in Russia for own needs, million cubic meters



Water consumption was reduced through the decommissioning of outdated equipment.

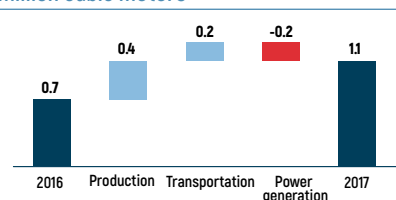
PRESERVING BIODIVERSITY

KEY 2017 INITIATIVES

- Release of more than 90 million juvenile fish of valuable species into rivers and water reservoirs during 2017 under PJSC LUKOIL's biodiversity conservation program .
- Carried out a training session on animal death prevention in case of an oil spill at the Varandey Terminal by the Company, the Sea Alarm Foundation, and the Ministry of Natural Resources and Environment of the Russian Federation.

- Developed plans on biodiversity conservation in the Russian Arctic Zone.
- Carried out educational training sessions on biodiversity conservation in Naryan-Mar.

Waste water discharge in Russia, million cubic meters



The increase was driven by production growth at priority projects.

AIR

MINIMIZING AIR EMISSIONS

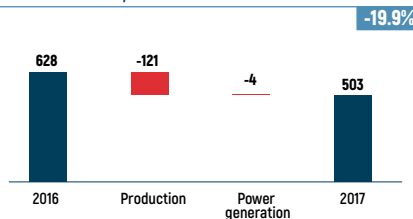
The E&P business segment accounts for the bulk of the Group's air emissions, at 85%, while APG flaring accounts for up to 65% of the Group's total emissions based on its current utilization rate.

KEY 2017 INITIATIVES

- Design, construction, and upgrade of APG utilization facilities, including commissioning of 18 facilities.
- Launch of the Lokosovsky GPP after repairs.
- Reduction of the share of fuel oil in the fuel mix at LUKOIL-Volgogradenergo's CHPP.
- Commissioned the 75 MW Yarega power generating center.

- Launched a gas desulfurization unit at the Usinsk GPP.
- Launched six combined-cycle gas turbines producing 120 tonnes of steam per hour at the Usinskoye field.
- A shift in the product mix towards products with improved environmental performance helps to reduce indirect air pollution. Production of Euro-5 compliant fuels helps reduce soot and nitrogen oxide emissions; additive packages included in ECTO fuels help to reduce considerably the concentration of harmful substances in exhaust gases.

Air emissions, thousand tonnes



Air emissions were reduced through APG utilization improvement and APG flaring reduction.

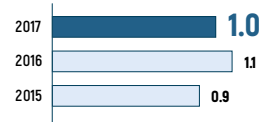
LAND

HIGHER ACCUMULATED WASTE DISPOSAL RATE

KEY 2017 INITIATIVES

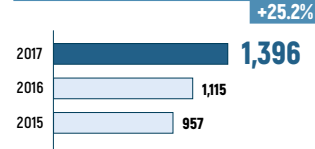
- Construction of modern landfills to process solid and liquid oil-contaminated waste in the Komi Republic and West Siberia.

Annual volumes of waste disposal to new waste generation

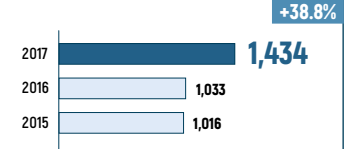


The Company maintains an equal level of waste generation and disposal.

Production waste utilization and disposal, thousand tonnes



Waste generation, thousand tonnes



Waste generation increased in 2017 due to the increase in drilling volumes.

PREVENTION OF CONTAMINATION AND RATIONAL USE OF LAND

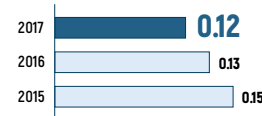
99%

of environmental incidents are caused by failures in pipeline integrity. LUKOIL implements a set of scheduled activities to minimize pipeline failure risks.

KEY 2017 INITIATIVES

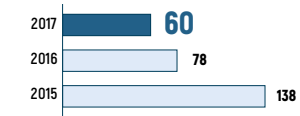
- Increase of the reclamation of disturbed land for 9.4%.
- Increase of the annual pipeline replacement rate (measured as a percentage of total length) to 2.8% (2.3% in 2016).
- Increase of the share of new pipelines with anti-corrosion coating to 65.4% (61.9% in 2016).
- Replacement of 1,317 km of outdated pipelines.

Failures per km of pipeline¹ in Russia



LUKOIL's efforts reduced the number of failures per km of pipeline to 0.11.

Contaminated land as of December 31, hectares



Major efforts to eliminate environmental damage caused by pipeline failures and recultivate contaminated land reduced contaminated land area by 23.5% in 2017.

¹ Pipeline failure is defined as a pipeline interruption caused by a sudden total or partial pipeline shutdown due to loss of integrity in a pipeline, or shut-off or control valves, or to pipeline blockage. Including data on oil, gas, and water pipelines.

UTILIZATION OF ASSOCIATED PETROLEUM GAS (APG)

LUKOIL uses APG reinjection to maintain pressure while also transporting APG to GPPs; APG is also used as a fuel for on-site gas-fired power plants, which helps reduce electricity and oil production costs.

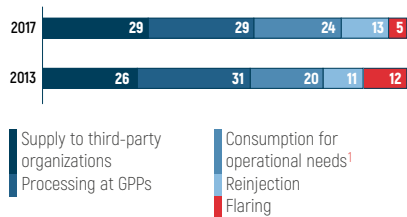
Through the consistent implementation of Efficient APG Use Program, the Company annually APG increases utilization rate that exceeded 95% in 2017.

Under the Group's Efficient APG Use Program for 2017–2019, 32 APG utilization facilities were designed, constructed, and upgraded in 2017. Seventeen facilities were commissioned.

Commissioning of key APG utilization facilities

Following the construction and commissioning of APG utilization facilities in the past five years, APG flaring was reduced by 0.8 billion cubic meters, while increasing reinjection, own consumption, and supplies to third-party organizations.

Gross APG production structure, %



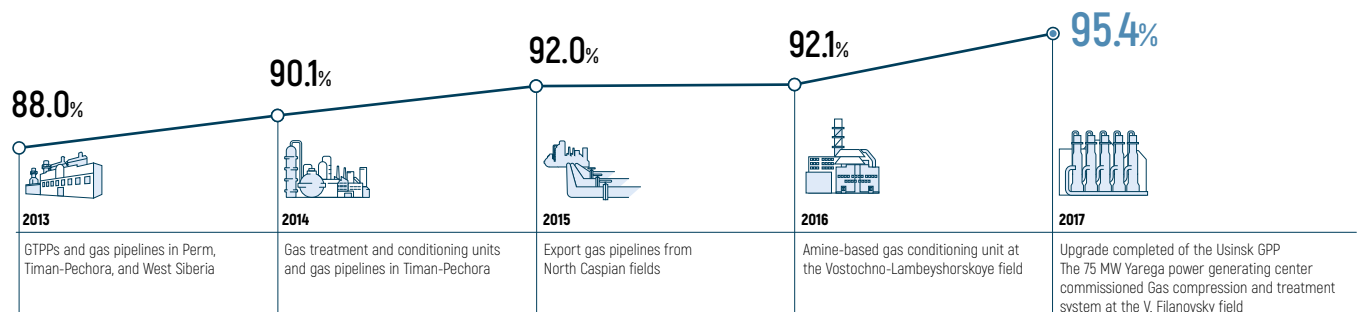
APG utilization projects completed in 2017

Region	Field	Facility
North Caspian	V. Filanovsky field	<ul style="list-style-type: none"> Gas compression and treatment system Fuel gas treatment system at IRFP 1 Gas lift pipeline from RB to IRFP 2
	Usinskoye field	<ul style="list-style-type: none"> Upgrade of the Usinsk GPP was completed Six steam-generating units launched
Timan-Pechora	Yu. Rossikhin field	<ul style="list-style-type: none"> A working fluid heater launched
	Vostochno-Lambeyshorskoye field	<ul style="list-style-type: none"> A high-pressure compressor station commissioned
	Yaregskoye field	<ul style="list-style-type: none"> 75 MW Yarega power generating center
Urals	Chashkinskoye field	<ul style="list-style-type: none"> APG pipeline: the Kurbaty-Churaki pipeline looping Unva-Olkhovka pipeline (as part of the refurbishment project)
		<ul style="list-style-type: none"> Five multiphase pipelines
Volga	Vozdvizhenskoye, Poltavskoye, Avralinskoye fields	<ul style="list-style-type: none"> A compressor station to divert gas from a low-pressure gas flare for the Company's operational needs A working fluid heater launched Oil line heater

APG utilization in key regions of operation, %

	2015	2016	2017
Total	92.0	92.1	95.4
Russia	91.9	91.7	95.2
West Siberia	96.3	96.5	97.0
Urals	92.7	92.3	96.5
Volga	94.8	91.5	95.7
Timan-Pechora	77.8	82.0	89.9
Other	98.4	98.0	97.3
International projects	93.5	98.1	97.6

Commissioning of key APG utilization facilities



¹ Including consumption for power generation, boiler house needs, line heaters, etc.

ENERGY EFFICIENCY

Energy efficiency and energy saving across all operations is a strategic priority for PJSC LUKOIL and an important part of cost-cutting and performance improvement initiatives. Efficient use of fuel and energy (FER), which make up the significant part of the Group's operating expense, is among LUKOIL Group entities' major commitments.

Key energy-saving initiatives in 2017 included replacing pumps, optimizing pump operation, and installing energy saving pumps and variable frequency drives; replacing and upgrading on-site equipment to enhance its efficiency; optimizing condensate collection and return; and upgrading lighting and heating solutions.

In the E&P segment, construction of small diameter wells is a good example of cost cutting and speeding up the development of reserves and resources through the technology advancement. Such wells are 25% cheaper than traditional wells, and enable efficient development of reserves which are economically unfeasible when developed using standard wells. In 2017, the first multilateral small diameter well was constructed.

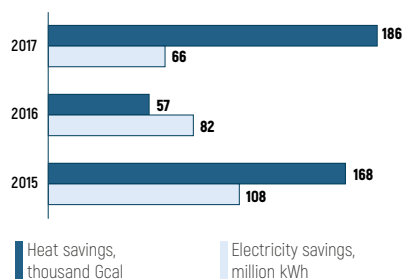
The Company is implementing a program to switch to energy-efficient pumps. An example of a successful operating costs reduction project is the development and deployment of our own downhole permanent magnet

synchronous engines (PMSMs). Pumps with permanent-magnet engines make it possible to cut power costs by more than 10% as compared to the conventional asynchronous pumps. In the medium term, the Company plans to replace all asynchronous motors with PMSMs.

In the Downstream segment, the energy efficiency program for 2018–2020 stipulates measures aimed at heat integration of facilities that produce and consume heat, furnace efficiency upgrade, and maximization of gas utilization.

FER consumed by LUKOIL Group are made up of electricity (33%), heat (20%), and fuel (47%).

Results of energy-saving initiatives



Energy consumption of PJSC LUKOIL, by type

	2017 consumption	
	in volume terms	in monetary terms, RUB million
Electricity	18,488 thousand kWh	94.3
Heat	15,160 Gcal	25.3

HEALTH AND SAFETY

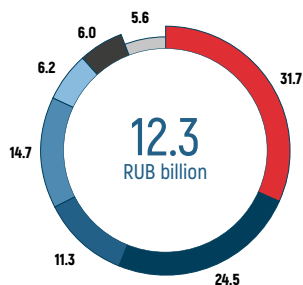
2017 RESULTS

- Key occupational injury rates reduced.
- Accountability of managers strengthened by the amendments to the calculation methodology of the HSE Compliance KPIs.
- A pilot project to introduce a system of remote industrial safety monitoring at the Group's facilities was delivered.

2018 PRIORITIES

- Improve response times to prevent accidents and mitigate emergency situations.
- Prevent emergencies caused by contractors or subcontractors.
- Improve working conditions and quality of staff education, hands-on training, and employee skills assessments.

Industrial safety (capital and operating) expenditures in 2017, %



- Emergency response and prevention
- Personal protective equipment and working conditions
- Use of modern technology for improving and protecting working conditions
- Buildings, constructions, and territories maintenance
- Management optimization and regulatory compliance
- Facilities compliance
- Other

PJSC LUKOIL has consistently ranked high among Russia's largest oil and gas companies for its health and safety performance. Activities in industrial safety conducted in 2017 helped the Company reduce key workplace injury rates in Russia: the number of lost-time incidents reduced by 33% to 16 cases, total incidents reduced by 11% to 16 cases, the number of injuries reduced by 33% to 18 people, and the accident frequency rate reduced to 0.19. Furthermore, the complete elimination of workspaces with the highest levels of harmful exposure and hazardous operating conditions was an important achievement.

In response to the increased number of accidents in 2017, additional measures were taken to increase accountability across all management levels, intensify skills assessment for management and contractors through LUKOIL Group's certification committees, and tighten contractor requirements in compliance with the Company's HSE policy.

Quality control, including corporate supervision, is one of the crucial tools for solving health and safety issues.

Key workplace injury rates in Russia

	2015	2016	2017	Change, 17/16, %
Number of lost-time incidents	28	24	16	-33.3
Number of incidents	24	18	16	-11.1
Number of injuries	30	27	18	-33.3
Number of fatalities	7	4	3	-25.0
Accident frequency rate ¹	0.28	0.21	0.19	-9.5

¹ Accident frequency rate [AFR] is calculated as the ratio of workplace injuries to an average headcount in the reporting period per 1,000 workers. AFR = number of incidents × 1,000 / average headcount.

Number of accidents

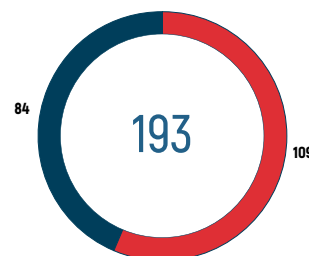
	2015	2016	2017	Change, 17/16, accidents
Accidents at hazardous production facilities	11	2	6 ²	4

² including 2 accidents due to contractors.

In 2017, supervisory authorities of LUKOIL Group conducted about 5 thousand inspections and identified about 30 thousand breaches, the majority of which (over 86%) was reconciled in the reporting year.

Conducting regular drills is the Company's most important tool to prevent serious accidents. During the year, 193 drills of different levels were conducted, with oil and oil product spills accounting for 109 drills.

Drills conducted in 2017



- Oil and oil product spill response
- Other

Over 10,500 on-site training sessions took place with the participation of a total 75,500 employees. During practice activities, special emphasis was placed on ensuring that the response plans for various incidents were realistic, as well as on the readiness and adequacy of efforts and means involved in emergency situations containment.

During the year, the Company and the Federal Environmental, Industrial, and Nuclear Supervision Service of Russia (Rostekhnadzor) delivered a pilot project to introduce a system of remote industrial safety monitoring at the Group's facilities in order to promptly assess industrial safety and forecast potential incidents.

DRIVING HSE THROUGH MOTIVATION

To strengthen accountability for HSE compliance, the HSE Compliance KPI was included in LUKOIL Group's Set of Key Performance Indicators (KPIs). The following metrics are factored in to assess performance against this KPI:

- no fatalities at the fault of the employer
- compliance of the HSE Management System with requirements of the ISO 14001 and OHSAS 18001 international standards
- accident frequency rate
- relative rate of air emissions
- relative rate of wastewater discharge into surface water bodies
- annual waste disposal to new waste generation ratio, etc.

PJSC LUKOIL's HSE compliance assessments are used in the motivation system for executives at all levels, workers, and specialists. To improve motivation and strengthen accountability for ensuring the required level of HSE compliance across all management levels of the Company, the Regulations on the HSE Compliance KPI Assessment were amended in 2017. In particular, tougher criteria of aggregate material damage caused by accidents were applied, and a zero incident criterion was introduced in the quarterly assessments.

TRAINING CENTER IN ASTRAKHAN

Since 2011, a Corporate Training Center has been operating in the Astrakhan Region. Its key objectives are to prepare workers for performing their professional duties at offshore facilities, to form staff knowledge, skills, and behavioral conduct, also during accidents, to educate staff on industrial, fire and environmental safety, health safety, and prevention and mitigation of accidents, as well as to provide psychological training.

Training is conducted for the Group's employees, third-party companies, relevant ministries, subcontractor representatives, and individuals. More than 6,000 people benefited from LUKOIL's training programs during 2017.

- Since 2013, the center has been an approved provider of OPITO specializing in training staff of offshore oil and gas companies (Great Britain).
- Since 2015, the center has been an accredited provider of the Joint Oil Industry Fire Forum (JOIFF) (Great Britain).
- The center successfully passed the GOST ISO 9001-2015 (ISO 9001:2015) compliance certification in 2017.
- The center was granted a perpetual certification of the Federal Air Transport Agency (Rosaviatsia) in 2017 for a number of educational programs.

PERSONNEL

2017 RESULTS

- Reduced employee turnover rate to 6.7%.
- Obtained authorization to perform independent assessment of certain qualifications at the Qualification Assessment Center.
- Increased the number of employees who completed training courses.
- Signed a new agreement with the International Labor Organization (ILO) for 2018–2022.

2018 PRIORITIES

- Improve the employee assessment and development system.
- Introduce mobile learning techniques, develop and acquire new courses for the knowledge base.
- Introduce an online instruction system.
- Develop and implement a unified approach to training for filling station staff.

LUKOIL Group's HR Policy is a policy of a unified integrated company with a strong and sustainable corporate culture and an intrinsically coherent system of corporate values. All elements of HR Policy are structured to ensure maximum flexibility for the Company and the ability not only to adapt promptly and efficiently to social and political, and economic changes, but also pro-actively initiate and successfully implement changes and innovations.

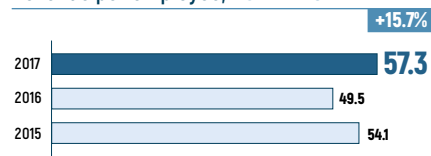
In order to increase productivity and optimize costs, management delayering continued in 2017, as well as aggregation of small and similar units based on internal analysis and benchmarking against other companies with identical assets.

In 2017, the Group's average headcount was 103.6 thousand employees, down 2% year-on-year. The reduction was driven by the sale of LLC KARPATNEFTEKHIM (Ukraine).

As part of restructuring and switching to the new management model, management was

delayed in foreign Exploration and Production subsidiaries through abolition of local governance structures, optimization of organizational structures and staffing at certain projects. International project and asset management functions were centralized at the corporate level, while the freed-up staff was transferred to other facilities and re-employed.

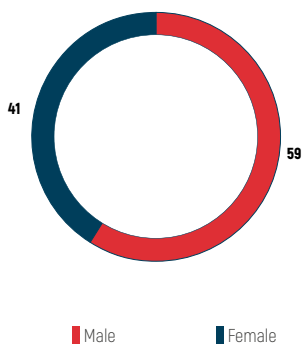
Revenue per employee, RUB million



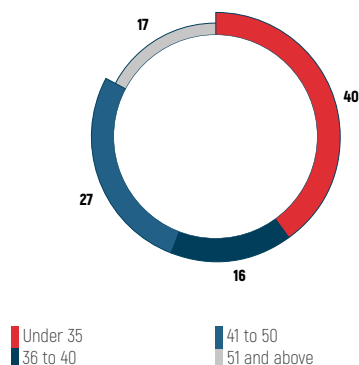
Recruitment

Staff is recruited by publishing vacancies on the Company's website, and leveraging the internal talent pool. Candidate selection and assessment relies on a number of assessment procedures including tests, questionnaires, interviews, and comprehensive assessment methods provided by an independent company.

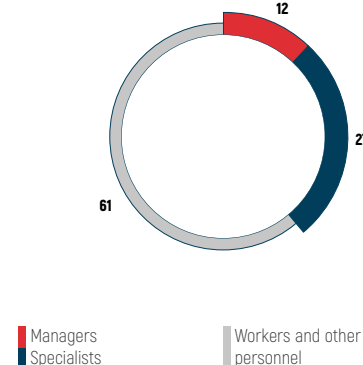
Personnel breakdown by gender as of December 31, 2017, %



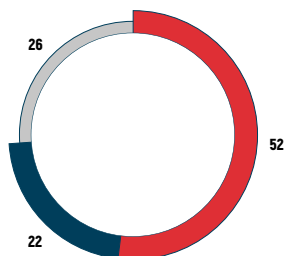
Personnel breakdown by age as of December 31, 2017, %



Personnel breakdown by job category as of December 31, 2017, %

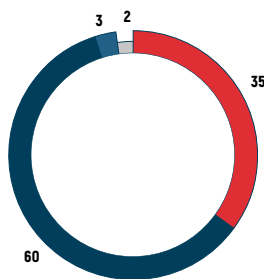


Personnel breakdown by education level as of December 31, 2017, %



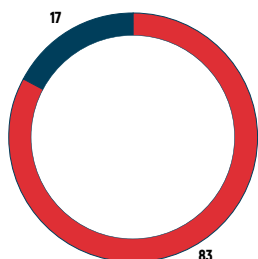
Higher
Secondary vocational
Initial vocational, secondary general, lower secondary

Personnel breakdown by segment as of December 31, 2017, %



Exploration and Production
Refining, Marketing and Distribution
Other business activities
Corporate Center

Personnel breakdown by geography as of December 31, 2017, %



Russian entities
Foreign entities

The Company's new employees undergo induction workshops to familiarize them with corporate documents, the Company's policy, values, development strategy, corporate culture, its history and future prospects, documents on social policy and employee development, and corporate security system.

Employee Development System

The Company has a continuous training system in place to provide its personnel with all the necessary knowledge and skills. Employee development is based on annual professional development plans.

Twice a year, the Company holds traditional Professional Training Days for the management of the Group entities, involving all top managers of our subsidiaries. During the event, participants discuss the most important issues related to their jobs.

We use a full range of advanced educational tools and techniques available today, including business case studies, workshops, trainings, overseas internships, professional development courses, oil industry related courses offered by multifunctional centers of applied qualifications, retraining programs, professional training days, and distance learning. For many years, over 50% of the Company's average headcount benefit from our training courses each year; in 2017, around 70 thousand employees (68% of the average headcount) passed trainings.

To improve operational efficiency and drive innovation, we deployed a Corporate Knowledge Management System (covering over 10 thousand employees and 260 expert communities). This

6.7% ^{-0.5 p.p. vs. 2016}

Personnel turnover ratio in 2017

WORK WITH SERVICE AND CONTRACTING ORGANIZATIONS

The Company works with service companies and contractors to minimize risks related to unqualified actions of the staff by introducing contract provisions on qualification requirements for the staff engaged to work at the Group's facilities.

framework helps to capture and disseminate best practices, ensure effective communications, and jointly explore and address common operational problems.

The Company has in place a distance learning system helping us optimize compulsory training costs. The system covers more than 60 Group entities and over 100,000 users. In 2017, the Company's employees completed 99 thousand training courses an increase of 46% year-on-year. Over 10 thousand employees passed professional competence tests. In 2017, employees successfully passed HSE certification by the Group entities' Commissions. Further development of the distance learning system is one of the priorities of the HR Policy.

To promote constructive cultural and educational collaboration and improve the levels of training for local staff, the Company holds an annual international conference focused on training and development of local workforce in Tashkent, Uzbekistan. In 2017, as part of collaboration with Uzbekistan, internships were organized at the Group entities for 25 employees of JSC Uzbekneftegaz.

Youth Policy

The Company's youth policy is aimed at attracting young employees, creating a favorable environment and opportunities for their successful and efficient self-fulfillment and professional realization. In 2017, the Company had a total of 42.8 thousand young employees (aged 35 and younger), with 12.1 thousand hired during 2017. The Company has in place a three-level young talent management system targeting schoolchildren, university students, and young employees.

Onboarding programs for young specialists include various annual trainings and workshops, scientific and technical contests and conferences, and the Young Professional Day team-building event. The Best Young Professional of the Year contest is conducted to encourage young professionals to be more active.

The concept of mentorship is one of the cornerstones of the Company's young talent management system, which helps ensure continuity of professional experience, operational excellence, and corporate culture. Only the most qualified, loyal and best-performing employees are appointed as mentors.

A good example of a succession planning system is the Young Energy Employee School multimodule project in power generation segment. The project results include reduced turnover rate and improved overall motivation. LLC LUKOIL-Engineering runs a Young Innovator Academy project aimed at fostering professionalism and intelligence in innovation-prone employees, implementing their projects, and enhancing team spirit.

Personnel Motivation

The personnel motivation system comprises financial and non-financial remuneration. Non-financial remuneration includes state and corporate awards, such as certificates of merit and letters of gratitude, that boost personal motivation.

EDUCATIONAL PROGRAMS FOR ENGINEERS

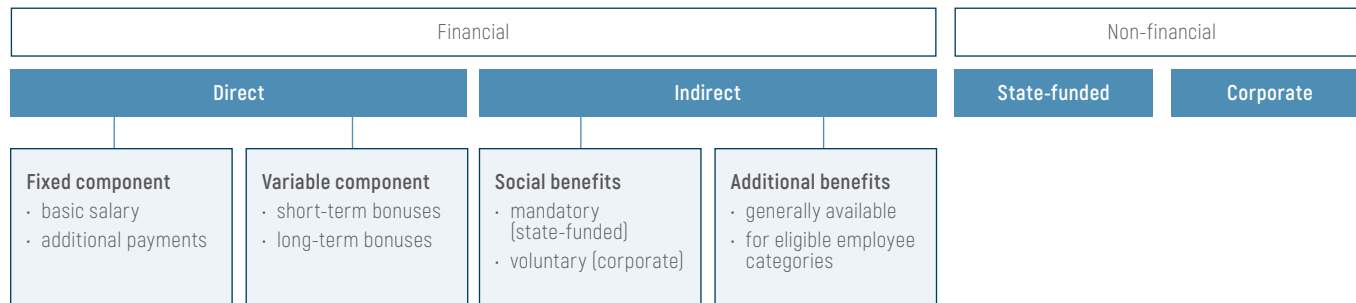
To train engineers, the Company collaborates with leading higher educational institutions that offer oil and gas degree programs. LUKOIL promotes employee development in collaboration with the following strategic partners:

- the Gubkin Russian State University of Oil and Gas;
- Perm National Research Polytechnic University;
- Tyumen Industrial University;
- Ukhta State Technical University;
- Ufa State Petroleum Technological University;
- Astrakhan State Technical University;
- Volgograd State Technical University;
- the Mendeleev Russian University of Chemical Technology.

The collaboration includes work placement and pre-graduation internships for students and on-the-job training for professors at the Group entities; participation of students and professors of higher education institutions in scientific and technical contests and the Company's young specialists conferences. A Summary Action Plan for collaboration between the Group entities with oil and gas, chemistry, and energy related education facilities is approved annually.

Motivation system

Total remuneration



Qualification Assessment and Occupational Standards

The Company's personnel performance assessment is carried out annually and is designed to motivate the employees to improve productivity and performance, strengthen their accountability, and encourage initiative. Performance assessment is carried out by the immediate supervisors based on employees' self-assessment and an expert assessment, if applicable. Both specialists and managers are assessed. Employees are informed of the upcoming assessment objectives, deadlines, criteria, procedures, and results. The assessment results are forwarded to managers to calculate proficiency ratios used to determine bonuses.

In line with Federal Law No. FZ-238 On Independent Assessment of Qualifications dated July 3, 2016, a Qualification Assessment Center was established at LLC LUKOIL-INFORM. In 2017, the National Council for Professional Qualifications in the Oil and Gas Industry authorized the Qualification Assessment Center to conduct independent assessments of the following qualifications: oil, gas, and gas condensate production operator

(qualification levels 4 and 5), oil and gas industry process unit operator (qualification levels 3 and 4). Functions and employee qualifications are aligned with occupational standards, and common approaches are developed to manage occupational standards across the Group in order to ensure the compliance with the provisions of Federal Law No. 122-FZ dated May 2, 2015 with regards to professional standards.

Social Policy for Employees

The Company's social policy is governed by the Social Code of PJSC LUKOIL, the Agreement between the Employer and the Trade Union Association of Public Joint-Stock Company "Oil Company 'LUKOIL'" for 2015–2020, collective agreements, and other internal regulations on social policy.

All employees of the Group's foreign entities are provided with the employer's social support, with 53% of employees covered by collective agreements. In its Russian entities, LUKOIL also pursues an extensive social policy offering a variety of benefits, guarantees, and privileges that all employees are entitled to.

The total cost of social programs for employees, their families, and retirees

amounted to RUB 18 billion in 2017, while the cost of social infrastructure maintenance exceeded RUB 1 billion.

Key programs included:

- **Health.** In the reporting year, the Company's expenses on health, including voluntary medical insurance, totaled RUB 2.3 billion. Primary health care services were available to employees at over 100 first-aid posts.
- **Housing.** In 2017, RUB 1.3 billion was allocated to address the housing needs of LUKOIL Group employees.
- **Private pension plans.** Over 43 thousand employees participated in the corporate contribution pension scheme as of the end of 2017, with their total contributions exceeding RUB 593 million. The Group's contributions under all private pension plans both in Russia and overseas in 2017 totaled around RUB 2 billion.

18
RUB billion

Social expenses for employees, their families, and retirees in 2017

Talent Pool Management

The Company builds a talent pool to ensure the continuity of management. The grounds for being included in the talent pool include employee performance, professional and business qualities, potential for managerial tasks, and assessment results.

The management talent pool of PJSC LUKOIL until 2019 was approved in 2016, as well as one for the Group entities.

LUKOIL prepares individual three-year development plans for each employee in the talent pool and monitors their progress annually, changing and amending plans where appropriate. These development plans are controlled by the Company's Vice Presidents and the top managers of its subsidiaries. Talent pool members are trained in the best Russian and foreign educational organizations and training centers. The main focus for the talent pool is the development and maintenance of managerial and corporate skills at the required level.

Human Rights

The Company respects universal human rights and abides by the UN Universal Declaration of Human Rights in its operations. The

commitments taken under the United Nations Global Compact cover all the Company's businesses and require information sharing with the organizations it interacts with.

The Company maintains a constructive dialog on corporate social responsibility and adherence to human rights with government authorities, employers, and trade unions in the regions where it operates. The Company also cooperates with the International Labor Organization (ILO). LUKOIL is committed to complying with key principles of labor relations and environmental protection adopted in the UN and ILO conventions. After joining the UN Global Compact, the Company developed and introduced documents such as the Code of Business Conduct and Ethics of OJSC LUKOIL, the Rules for Corporate Culture of LUKOIL Group Entities, and the Social Code of PJSC LUKOIL. Compliance with business ethics standards is obligatory for the members of the Board of Directors, the Management Committee, the Audit Commission of PJSC LUKOIL, and all the Company's employees. Compliance with regulations and policies by all LUKOIL Group entities is subject to internal inspections, including extraordinary, by the Business Ethics Commission.

EXPERT ASSESSMENT

The Company ranked among Russian leaders of the Corporate Human Rights Benchmark, an international benchmark of corporate human rights performance, landing second place among Russian companies and first place in the Russian energy sector. Sponsored by eight global investors and banks, the rating is based on compliance of publicly available corporate information with the UN Guiding Principles on Business and Human Rights.

Among the key assessment criteria are: embedding respect for human rights in management systems, judicial grievance mechanisms, responses to allegations, and informational transparency.



Human resources management policy can be viewed on the website www.lukoil.com on the Human resources management page.

The Company's key principles and approaches in social responsibility are described in the Social Code of PJSC LUKOIL. In 2017, a new version of the Social Code of PJSC LUKOIL was approved, covering major aspects of human rights, anti-discrimination provisions, equal pay for equal work provisions, staff development, as well as contractors' compliance with the same principles and approaches. Apart from the Social Code, the matters of social responsibility, human rights, ethical behaviour, and control mechanisms are described in the Code of Business Conduct and Ethics.

To ensure compliance with the corporate business ethics standards and the respect of human rights, the Company set up a Business Ethics Commission, which is chaired by its President. Should any alleged human right violation occur, employees can address

the employer directly or with the help of independent trade union structures. The Company accepts confidential reports that may be submitted via communication channels available on a 24-hour basis.

Diversification

To eliminate and avoid potential discrimination, LUKOIL's HR Policy is guided by principles of equal opportunities for all employees regardless of gender, age, race, and religion.

The Company approved local regulations on job quotas for the disabled to contribute to the employment of people with disabilities, totaling 2% of its average headcount. Special working conditions, benefits, and guarantees are provided for disabled employees, including shorter work hours with the same salary and a longer annual leave, as well as suitable working places, equipment customization and additional light installments.

COOPERATION WITH THE INTERNATIONAL LABOR ORGANIZATION

LUKOIL was the first Russian company to cooperate with the ILO (since 2012). Following their successful cooperation over the last five years, the Company and the ILO signed a new cooperation agreement in 2017 for 2018–2022. The Company shares ILO principles and abides by them through implementing recommendations and joint initiatives. During the year, LUKOIL participated in the 10th European Regional Meeting of the ILO as part of the official Russian delegation.

To enhance its social dialog practice, the Company held a training program for employees of LUKOIL Group entities at the ILO International Training Center in Turin. During the year, heads of HR and the Group's trade union leaders completed a training program named "Social Dialog Development in LUKOIL: Recent Trends and International Best Practices".



The full text of the Social Code is available at <http://www.lukoil.com/Responsibility/SocialPartnership/SocialCodeofPJSCLUKOIL>

The full text of Code of Business Conduct and Ethics is available at <http://www.lukoil.com/FileSystem/9/136634.pdf>

For more details on the corporate business ethics, see "Reference Information and Ethic"

INTERACTION WITH THE SOCIETY

2017 RESULTS

- Signed new cooperation agreements in regions where the Company operates.
- Delivered a number of major charity projects in education, healthcare, culture, and social infrastructure construction.
- Provided sponsorship support for professional sports teams and competitions.
- Increased customer loyalty index by pursuing a customer-oriented policy.
- Continued cooperation with federal authorities and NGOs.

2018 PRIORITIES

- Delivery of social and charity programs in regions in which the Company operates
- Development of a support program to increase disabled people's accessibility to sports, particularly adaptive sports.
- Sustainable development of the Company's regions of operation and raising the quality of life in urban and rural areas through the support of healthcare, education, and social enterprises.

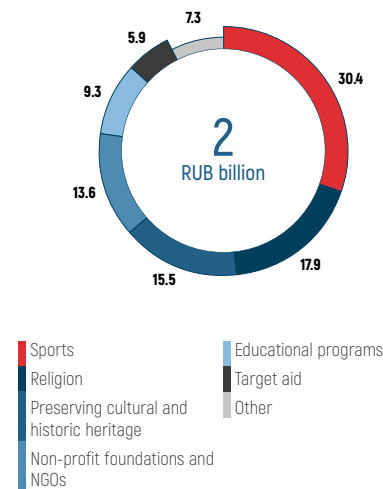
The Company conducts its business in a sustainable way, striking a balance between social and economic development progress and environmental potential.

LUKOIL shares and supports the goals of the 2030 Agenda for Sustainable Development adopted by the UN General Assembly in

Resolution 70/1, as businesses play an important role and contribute significantly to the well-being of society. Conscious of its responsibility to all stakeholders in the countries and regions where it operates, LUKOIL maintains a dialog through the reports and targeted programs while taking into account cultural and historic characteristics of the communities.

Expenses on charity and agreements with Russian regions and municipalities totaled about RUB 9 billion in 2017, out of which over RUB 6 billion spent for agreements. Apart from charity expenses, the Company provides annual sponsorship across a number of areas, with expenses totaling RUB 3.2 billion in 2017.

Breakdown of the Group's charity expenses¹ in 2017, %



¹ Excluding expenses on agreements with Russian regions and municipal entities.

Support of orphanages and children's educational facilities

LUKOIL views support for children as a priority on its social agenda. The Company seeks to maintain a balanced approach, providing aid to disadvantaged children with health or family problems as well as supporting those from more functional families to develop their abilities and talents.

LUKOIL runs a comprehensive program for the social adaptation of underprivileged youth in its support of the Kstovo Oil Technical College in the Nizhny Novgorod Region, which is attended by the boarders of the Company's supported orphanages. Students regularly visit the Company's Nizhny Novgorod Refinery to learn about its operations and develop skills and practical knowledge.

The Company supports specialized children's institutions in all regions of its operation. In 2017, substantial support was provided in the form of renovations and equipment for the Veliky Ustyug orphanage, School No. 1 in Kogalym, Family Support Center No. 11 in St. Petersburg, Boarding School No. 2 in Nolinsk, Kirov Region, and kindergartens in the Nizhny Novgorod and Saratov Regions, the Stavropol and Perm Territories. In the Komi Republic, the Company built a kindergarten, purchased school buses, equipment, and multimedia technology for ten schools and renovated their classrooms. Two kindergartens seating a total 230 children were opened in the Perm Territory.

Cars were donated to the Krasnogorsk orphanage and the Alnashi orphanage in the Udmurt Republic.

LUKOIL also continued its program to support children's schools by donating musical instruments to schools in the Stavropol Territory, the Komi Republic, the Udmurt Republic, the Perm Territory, and Moscow. Children with disabilities are a specific focus of LUKOIL's social efforts. Books were donated to special schools in Saratov, Izhevsk, and Elista in 2017 as part of the program "Illustrated Books for Small Blind Children". For eleven years, the Company has been running a program granting scholarships to graduates of LUKOIL-sponsored orphanages, with 49 graduates receiving the scholarship in 2017.

Educational programs

The Company adopts an annual comprehensive action plan on collaboration with higher educational institutions offering oil and gas, petrochemical, and energy degree programs. The Company's Subsidiaries provide career counselling for school and university students by organizing visits to their institutions and holding open days. The Company cooperates with a number of educational institutions and considers them strategic partners. The cooperation includes part-tuition fee sponsorship for promising students, an internship program providing both internship and undergraduate practice at the Group's facilities, internship at Group entities for professors, and student and university professors in both conferences and research and development contests for the Company's young professionals.

Scholarship programs

LUKOIL has been awarding personal scholarships for over 17 years to support the most talented students of universities and other educational institutions offering oil and gas, petrochemical, and energy degree programs. In 2017, the corporate scholarship totaling RUB 6.6 million was made available to a total of 180 students from cities across Russia. Under its program to support young professors, the Company provided personal grants totaling RUB 10.3 million to 89 academics lecturing at Russia's leading oil and gas universities and other academic institutions.

Healthcare support

The Company supports some of Russia's largest specialized medical research centers, and is committed to developing healthcare across the Group's geography. In 2017, the Company's aid was provided to the Russian Cardiology Research and Production Complex, Innovative Surgery Development Center, the Mezensk District Central Hospital and the Liman Regional Hospital in the Arkhangelsk Region, and 21 healthcare facilities in the Perm Territory. The Company repaired the children's ward of the Kharabalinsky District Central Hospital and purchased medical equipment for the Ikryaninsky District Central Hospital in the Astrakhan Region. Following major renovations, the surgery facility of the U. Dushan Chernozemelsky District Hospital reopened in the Republic of Kalmykia. LUKOIL also equipped the perinatal center named after O. Shungaeva with modern medical technology and purchased a lung ventilator for the Children's Republican Medical Center.

Social project contest

Among LUKOIL's most successful social investment initiatives is an annual social and cultural project contest that has been held by the Company since 2002. The traditional goals of the contest support initiatives solving the most pressing social problems and the improvement of the Company's charity efforts. The contest was held in 21 Russian regions in 2017, and the Company allocated grants for 740 selected projects totaling about RUB 105 million.

Supporting indigenous and minority peoples of the North

In line with international law and best practices, the Company cooperates with representative bodies of indigenous peoples of the North, regional administrations, heads of municipalities, the Assembly of Indigenous Minorities of the North, and the leading NGOs of the North.

Taking into account the diversity of stakeholders and the specific attributes of each region, the Company supports indigenous minorities of the North in a wide variety of ways, including preserving minorities' national culture and languages, building social facilities, and providing compensatory payments, education, healthcare, snowmobiles, specialized equipment, construction materials, fuels and lubricants, and animal feed for deer, as well as organizing and holding thematic conferences.

Preserving cultural and historic heritage

The Company supported regional theaters in 2017, including the Astrakhan and Saratov Opera and Ballet Theaters, the Kstovo Puppet Theater, and the Perm Youth Theater. LUKOIL was also a partner for the 4th International Contest for Vocal Singers named after M. Magomaev and the Opera Live Music Festival. The Company funded the restoration of several paintings from the State Historical Museum in Moscow and the Astrakhan Gallery named after Pavel Dogadin, and provided financial support for seven exhibitions.

The Company continued providing support to the Tchaikovsky Grand Symphony Orchestra conducted by Vladimir Fedoseyev, the Perm State Tchaikovsky Opera and Ballet Theater, and the Kaliningrad Regional Philharmonic Hall. LUKOIL has been sponsoring the Spasskaya Tower International Military Music Festival for several years, constructing a piece of art (a pumpjack for oil production) for the Spasskaya Tower for Kids project in celebration of the festival's 10th anniversary.

Target aid

The Company pays annual allowances to battle-front, World War II, and industry veterans. The Company also provides support to families of servicemen who died in local conflicts. In 2017, the Company supported both constructions and reconstructions of sports facilities and sports grounds in the Perm Territory, the Republic of Kalmykia, the Stavropol Territory, and the Khanty-Mansi Autonomous Area.

Support for religious groups

The Company is actively involved in the revival of religious rites and spiritual culture. In 2017, LUKOIL supported 11 churches, monasteries, and orthodox preparatory schools, and continued financial support of the construction of a new church in Kogalym.

Sports

Over the years, LUKOIL's social policy has been focused on supporting sports and promoting healthy lifestyles. Taking care of its employees' and their families' health, the Company rents sports facilities and holds various sporting competitions .

In 2017, the Company continued its long-standing support for professional sports teams and competitions, specifically Spartak-Moscow Football Club, United Basketball League Non-Profit Organisation, Cross Country Ski Federation of Russia, LUKOIL Racing Team, Zarya Kaspiya Handball Club, the Spartak Volgograd water polo team, Children's Football League, and the Automotorsport Federation of the Republic of Kazakhstan. The Company has also consistently supported the charity hockey project "From Pure Heart" in support of sportsmen and children with disabilities.

During the year, LUKOIL was an official sponsor of the 2017 Russian Formula One Grand Prix; Spartak-Moscow won their 22nd Russian Football Championship for 2016–2017, several tours ahead of its finale, and won the Russian Super Cup in July; LUKOIL Children's Champion Cup expanded both its format and geography; the LUKOIL Racing Team, victorious both domestically and internationally, celebrated its 20th anniversary; and Sergey Ustiugov, member of Russia's national cross country ski team, broke an all-time record by winning five of seven stages within the 2017 Tour de Ski international competition.

STAKEHOLDER RELATIONS

Interaction with federal authorities and non-profit organizations, including NGOs

In its dealings with federal authorities the Company is guided by law and seeks to balance the interests of the state and business. LUKOIL is involved in preparing proposals to improve the legal framework of the state policy for the energy industry. In 2017, the Company, in cooperation with non-profit organisations (RSPP, the Chamber of Commerce and Industry of the Russian Federation, the Union of Oil & Gas Producers, the Civic Chamber of the Russian Federation, and others), submitted over 200 opinions on draft laws and other regulations to federal executive and legislative authorities (tax and customs regulations, promotion of competition, industrial and environmental safety, subsoil use, etc.).

Being a member of the Russian Trilateral Commission since 2008, the Company can directly submit proposed amendments to labor laws and regulations while they are being drafted and considered by the Russian Government. In 2017, over 150 items on amendment of existing laws and approval of new ones were reviewed, along with social and economic decisions.

Interaction with regional authorities

In 2017, we continued our efforts to improve the mechanisms of mutually beneficial cooperation to support the manufacturing sector, bolster economic growth, and enhance social development in the regions in which the Company operates.

Interaction with regional and local authorities covers production facilities upgrades, signing and subsequent implementation of agreements with regions, anniversary events, regional and international forums.

In the reporting year, LUKOIL signed new cooperation agreements with the Volgograd, Nizhny Novgorod, Saratov, and Kaliningrad Regions, and the Yamal-Nenets Autonomous Area. Under existing agreements, 24 protocols and addenda were signed (the Khanty-Mansi, Yamal-Nenets, and Nenets Autonomous Areas; Komi Republic and Republic of Kalmykia; Perm, Krasnodar, and Stavropol Territories; Voronezh, Kaliningrad, Samara, Astrakhan, Arkhangelsk, and Saratov Regions).

Interaction with suppliers

To ensure competitive, unbiased and effective sourcing of goods, work, and services, the Company adheres to the principles of openness and transparency of its tender procedures and fully promotes fair competition. These principles form the basis of our internal regulations and policies on the tendering process.

To ensure compliance with HSE standards when selecting contractors, regulations on the tendering process include the procedure for assessing HSE compliance as part of the pre-qualification process. The Company's experts conduct the assessment based on bidders' qualification questionnaires as per the established procedure. If the Company is not satisfied with assessment results, the potential bidder is screened out of the tendering process.

Interaction with customers

In 2017, the number of active participants in the Customer Loyalty Program across Russia exceeded 10.9 million. We continued to maintain our customer focus, in particular, to develop customer feedback channels across the Company's geography and monitor customer satisfaction across its network of filling stations. The Company runs mystery shopper assessments including the NPS (Net Promoter Score) measurement. The score is calculated as a difference between the percentage of "promoters" and "detractors", with results varying from -100 to +100. In 2017, LUKOIL's NPS was up 1 to 43. The Company also operates a Single Hotline for customer calls. In the reporting year, the share of complaints in the total number of calls to the Single Hotline was 55%, down 3 p.p. year-on-year. The majority of complaints dealt with actions by staff and the technical condition of filling stations.

CORPORATE GOVERNANCE

2017 RESULTS

- Launched electronic voting at the General Shareholders Meeting.
- Improved the risk management and internal control system.
- Approved internal documents, ensuring shareholder rights and regulating the remuneration of the Board of Directors.
- Increased transparency in sustainable development.

2018 PRIORITIES

- Improvements to the procedures for the Board of Directors' performance.
- Continued development upon internal controls.
- Updating the Company's internal documents to incorporate regulatory changes.

An efficient corporate governance system is a vital tool ensuring sustainable development and successful implementation of the corporate strategy to create shareholder value.

The Company has a well-developed corporate governance system governed by business conduct and ethics set at international standards, Russian law requirements, the Moscow Exchange Listing Rules, and provisions of the Corporate Governance Code recommended by the Bank of Russia.

Key principles underlying the PJSC LUKOIL corporate governance system:

- respect for, and protection of, the rights of shareholders and investors
- consistent and collegial decision-making
- active approach and professional skills of the Board of Directors
- a stable and transparent dividend policy
- information openness and transparency
- zero tolerance for corruption in any form
- adherence to ethical standards
- corporate social responsibility

Corporate Governance Structure of PJSC LUKOIL

