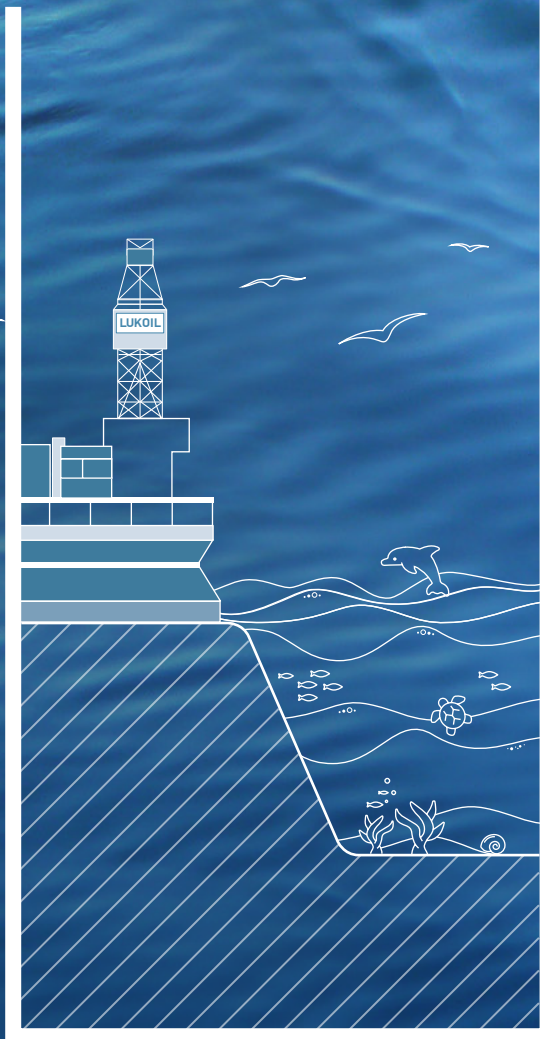




LUKOIL GROUP  
SUSTAINABILITY REPORT  
2015-2016



**IN HARMONY  
WITH THE PRESENT,  
WITH CARE FOR  
TOMORROW**



# CONTENTS



Interactive version of LUKOIL Group Sustainability Report 2015-2016

<http://csr2015-2016.lukoil.com>



## Community

- 85 Management approach
- 87 Social investments
- 90 High quality industry-specific education
- 92 Interaction with the indigenous minorities of the North
- 94 Charity and sponsorship



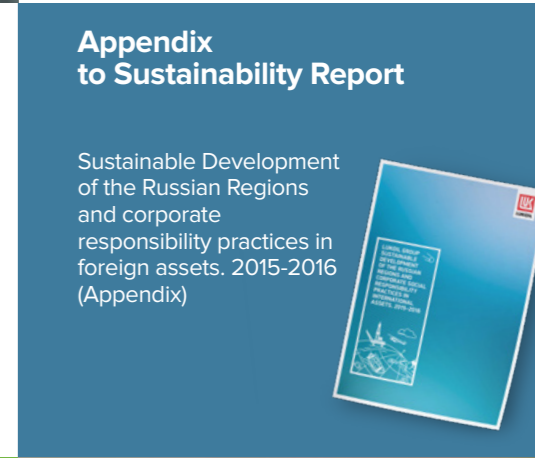
## Personnel

- 62 Management approach
- 63 The company's position with regards to employment entitlement and human rights
- 64 Guarantees of employee labor and human rights
- 66 Health and on-site safety
- 70 Personnel policy
- 73 Incentives and remuneration
- 80 Training
- 82 Youth policy



## Health, safety and environment

- 42 Management approach
- 44 Management system
- 45 Environmental safety program
- 55 Biodiversity conservation
- 57 Health and safety



## Appendix to Sustainability Report

Sustainable Development of the Russian Regions and corporate responsibility practices in foreign assets. 2015-2016 (Appendix)

- 02 Address by PJSC LUKOIL President and CEO
- 06 About the Report



## About the Company



- 11 General information
- 22 Strategy and management
- 27 Corporate governance
- 31 Ethics
- 32 Risk management and internal control
- 34 Stakeholder engagement
- 37 Supply chain

- 102 Table of conformity to the GRI Guidelines, UN Global Compact and RUIE's Core Performance Indicators
- 109 Conclusion of KPMG
- 113 Conclusion of the RUIE
- 119 Reporting boundaries
- 123 Basic terms and notions
- 125 Contact Information on the Report



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*"We intend to continue a constant dialogue with the stakeholders, implement programs and projects that have shown their effectiveness, and look for new approaches and ideas".*

## Address by PJSC LUKOIL President and CEO

This Sustainability Report is an opportunity for our Company to present a comprehensive view of our economic, environmental and social achievements. We are convinced that it is only through observing a balance between all these factors that we can ensure the truly harmonious development of the business. In fact, along with the creation of shareholder value, we strive to ensure that our activities contribute to maintaining the ecological balance, as well as improving the prosperity of the regions of our presence through taxation and social support programs

Observance of laws and moral standards, consideration of the expectations of stakeholders and the interests of future generations have been used for strategic decision making since the foundation of LUKOIL.

When planning our activities, we take into account the main global trends in the field of sustainable development. One of the latest initiatives our Company has supported is the United Nations Development Program, "Transforming Our World: The 2030 Agenda for Sustainable Development". This document gives recommendations for coordinating the efforts of government and business in the field of sustainable development.

Among the industrial achievements of the reporting period, mention should be made of the commissioning of the Pyakyakhinskoye field in the north of West Siberia and the Vladimir Filanovsky field in the Russian sector of the Caspian Sea.



**2.5**  
trillion rubles  
LUKOIL  
CAPITALIZATION  
AS OF THE END  
OF 2016  
(RECORD HIGH)

The high productivity and cost-effectiveness of these projects confirm the Company's ability to successfully develop complex hydrocarbon reserves from scratch, both onshore and offshore. The competences that have been accumulated form a solid foundation for further sustainable development of the Company in the circumstances of a reduced conventional resource base.

The Vladimir Filanovsky field is the largest of our new projects. With its record breaking outputs and minimal environmental impact, it is a good illustration of the sustainable development concept in action. The 'zero discharge' principle has been applied here, which completely rules out the discharge of wastes into water, and a biodiversity conservation program is also being implemented. The development of this project contributes to the economic growth of the Astrakhan Region through the creation of new jobs, the use of contractors, and implementation of regional social support programs.

The Pyakyakhinskoye field is distinguished by its use of highly complex drilling and well completion technologies. In particular, we use horizontally branched wells that ensure high flow rates and enable us to minimize geological risks. The experience we have gained has opened up new possibilities for implementing oil production projects in future. It is also important to note that development of this field, like our work in the new East-Taimyr license block, contributes to the integrated development of the Russian subarctic regions.

Among our international projects, attention must be drawn to our deposits in Uzbekistan, where we have invested substantially in the construction of a gas production and treatment infrastructure. Once these projects have achieved full capacity, they will be one of the major growth factors of the Company's hydrocarbon production in the medium term.

It is worth mentioning that we were one of the first in Russia to complete the basic modernization program for our Russian refineries. As a result, we have significantly improved the output composition of our products and have fully transitioned to the production of fuels under the Euro 5 environmental standard. Today, our refineries are in line with the best global practices.

As a result of the implementation of the Environmental Safety Program in Russian enterprises, the volume of water withdrawn from natural sources has been reduced, while the scope of land reclamation and volume of waste utilization have increased. In recent years, we have been actively implementing the Efficient APG Management Program and are approaching the target of 95% of APG utilization in all subsidiaries in Russia.

Despite numerous economic challenges, we have managed to show strong financial results in the reporting period and have outperformed many global oil and gas companies. Thanks to our considerable cash flow, we have been able to reduce our debt burden to a record low (net debt/EBITDA – 0.6).

**G4-1 G4-2**



**95%**

the planned level  
of APG utilization  
at all subsidiaries  
of the Group  
in Russia





>100

thousand people

are employed by LUKOIL Group. The Company is one of the largest employers in Russia

The outcome of our business development efforts and our balanced financial policy are reflected in the market value of the Company – LUKOIL's capitalization reached a historic high of 2.5 trillion rubles in 2016.

In the last two years, we have increased our ruble dividends by 27% per share and, in 2016, approved new provisions on dividend policy, designed to improve the traceability and predictability of our dividend payments.

In 2015–2016, the Company paid a great deal of attention to the development of the corporate governance system. Among the important changes has been the formation of the Corporate Secretary department in accordance with the recommendations of the Bank of Russia's Corporate Governance Code. In addition to this, further confirmation of the high value placed on environmental and industrial safety has been the introduction of a Health, Safety and Environment Committee, accountable to the President of PJSC LUKOIL.

Throughout its history, LUKOIL has maintained the status of one of Russia's largest employers. Over 85 thousand people work for our Russian entities, and more than 100 thousand people are employed

by the LUKOIL Group. They are people of various trades and ethnic backgrounds, who, together, form a highly professional and motivated team. Our relationship with our employees is focused on creating conditions conducive to a high quality of work and life, and on solving the specific social problems they and their families may have through social partnerships with trade union organizations. Much attention has been paid to safety issues, educational programs, and personnel development programs.

We are in dialogue with public environmental organizations and the indigenous minorities of the North, on whose ancestral territories our production facilities operate. As a direct result of the support the Company gives, both in Russia and abroad, significant social facilities have been built, and the initiatives of local organizations have been realized. An important area of social investment, in which the Company works together with the "Our Future" Foundation for Regional Social Programs, is the development of social entrepreneurship in the Russian regions.

We intend to continue a constant dialogue with the stakeholders, implement programs and projects that have shown their effectiveness, and look for new approaches and ideas.

In response to the growing needs of our stakeholders as regards information about the Company, we have prepared this report in accordance with the G4 Global Reporting Initiative (GRI) Guidelines. This Guidelines introduces more extensive requirements on the disclosure of information on corporate ethics and product supply chain, which are reflected in this document.

I am pleased to present to you the Sustainability Report of the LUKOIL Group and I am happy to say that, starting from 2017, we are moving to an annual reporting cycle and expanding the reporting boundaries by including foreign assets in the document.

In gratitude for your interest in our Company,

President and CEO,  
Chairman of the PJSC LUKOIL  
Management Committee  
**V.Yu. Alekperov**





## About the Report

G4-28, G4-29,  
G4-30, G4-32,  
G4-15, G4-18,  
G4-3, G4-23

PJSC LUKOIL presents the seventh Sustainability Report prepared for the period from 01.01.2015 to 31.12.2016. The document comprehensively reflects economic, environmental, and social results of our activities. The Company has published Sustainability Reports since 2005. The previous Report was published in autumn 2015 (for the period from 01.01.2013 to 31.12.2014). **G4-28, G4-29, G4-3**

Up until the 2016 reporting year inclusive, the Company<sup>1</sup> published its reports every second year. In order to increase the relevance of the information provided and in accordance with the recommendations of the Council on Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs following public confirmation of the previous report, the Company intends to move to an annual reporting cycle in 2017 and expand the reporting boundaries by including foreign assets in the scope of the Report. **G4-30, G4-23**

LUKOIL uses the following documents and guidelines when preparing reports: **G4-32**

- Sustainability Reporting Guidelines under the Global Reporting Initiative GRI G4 (the main level of compliance). General Standard Disclosures and specific standard disclosures under GRI G4 are included on p. 102;
- UN Global Compact; **G4-15**
- Social Charter of Russian Business, Core Performance Indicators (CPI). **G4-15**

The Company is guided by AA1000 SES (2015) standard when convening dialogues (round-table discussions) with the external stakeholders. The LUKOIL Group consolidated financial statements have been drawn in accordance with IFRS since the 2015 Statement (under US GAAP previously).

A standard process of identification of material aspects in the course of preparing of non-financial reporting includes study of the following sources: **G4-18**

- topics raised by the Company's leadership and top-managers in the framework of public appearances and presentations in Russia and abroad;
- publications about the Company in the major business, and social and political media, as well as in the Internet media;
- reports of Russian and foreign oil and gas comparable companies;
- analysis of significant events in the industry within the reporting period;
- interview of the heads of LUKOIL's key structural subdivisions (conducted from time to time);
- the content of dialogue with stakeholders in Russian regions of the Company's presence (1–2 dialogues annually, with an average number of participants of 30–50 per dialogue).

In 2016, the process was supplemented by conducting a survey of business partners of the Company's subsidiaries operating in Russia.



### Starting from 2017,

the Company is moving to an annual reporting cycle and extending its boundaries



**THE COMPANY PUBLISHES  
ITS NON-FINANCIAL REPORTS**  
to inform stakeholders of the key areas  
of its activity and economic, social, and  
environmental results from the point  
of sustainable development of the  
Company and society.

<sup>1</sup> The words LUKOIL, Company, Group, the LUKOIL Group in this document mean PJSC LUKOIL and its subsidiaries and affiliates.





Based on the results of a comprehensive analysis, the following themes have been identified as significant.

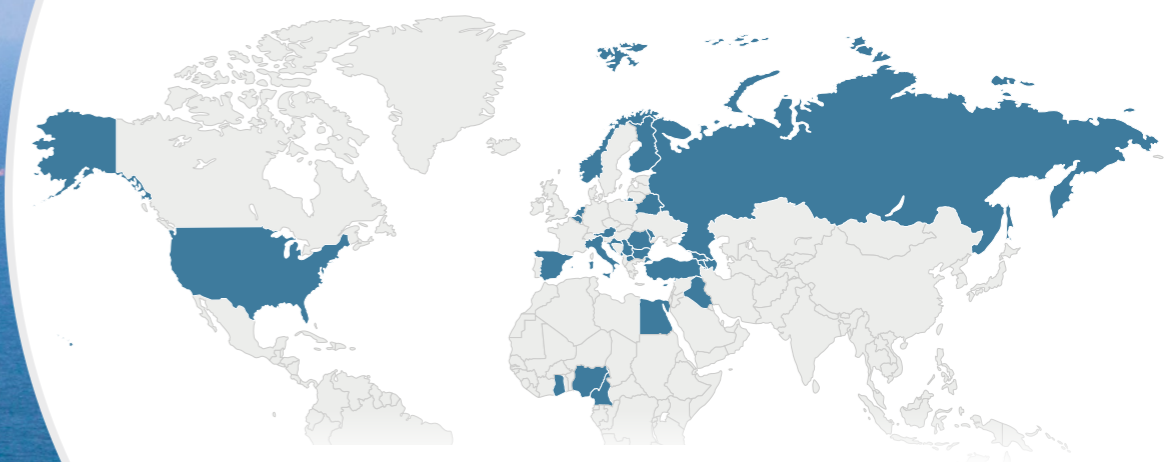
G4-19 G4-20 G4-21 G4-27

Comparison with GRI Aspects [G4-19]	Material aspects of the Report [G4-27]	Significant for the Company [G4-20]	Significant for outside audience [G4-21]	Report Sections
<b>Economic category</b> • Economic performance • Indirect economic impact	<b>Economic</b>			
	Capital investments, including those for the modernization of power generating facilities and oil refineries. Plans to construct new production facilities and expand current ones	✓	✓	About the Company (General information). Sustainable Development of the Russian Regions and corporate responsibility practices in foreign assets
<b>Social category</b> • Product responsibility				
<b>Industrial application</b> • Reserves	Development of fields at mature stages, as well as extraction of hard-to-reach and hard-to-recover reserves	✓	✓	Sustainable Development of the Russian Regions and corporate responsibility practices in foreign assets
<b>Environmental category</b> • Energy	Energy sources, including renewable	✓	✓	About the Company (General information. Power Engineering)
	Innovative Policy	✓	✓	About the Company (General information. Development of Technology). Sustainable Development of the Russian Regions and corporate responsibility practices in foreign assets
	Procurement practice with Russian organizations and engagement in small entrepreneurship development programs	✓	✓	Community (Development of social entrepreneurship)
	Fuel and Products: quality, meeting clients' demands, customer satisfaction at filling stations	✓	✓	About the Company (General information. Trade and marketing) About the Company (Interaction with Stakeholders)
<b>Social Category</b>	<b>Environmental</b>			
<i>Labor practices and decent work:</i> • Health and on-site safety	Industrial Safety	✓	✓	HSE (Industrial Safety) Personnel (Health and On-Site Safety)
<b>Environmental category</b> • Water • Emissions • Discharges and waste • Biodiversity • General information (Investments in Environmental Protection)	Implementation of Environmental Policy. Impact on the main environmental components: air, water, and soil	✓	✓	HSE (Management Approach; Management System; Environmental Safety Program)
	Greenhouse gas emissions and climate change	✓	✓	HSE (Environmental Safety Program)
	Development of offshore fields	✓	✓	HSE (Biodiversity preservation)
	The impact of industry on the environment in the territories of operation and public health	✓	✓	HSE. Community. Sustainable Development of the Russian Regions and corporate responsibility practices in foreign assets
	Oil spills	✓	✓	HSE (Emergency prevention and response)

Comparison with GRI Aspects [G4-19]	Material aspects of the Report [G4-27]	Significant for the Company [G4-20]	Significant for outside audience [G4-21]	Report Sections
<b>Social Category</b>	<b>Social</b>			
<i>Labor practices and decent work:</i> • Employment • Employee-Employer relations • Training and education • Diversity and equal opportunities • Equal remuneration for female and male employees • Grievance mechanisms in regard to labor practices	Personnel policy, social policy with respect to employees	✓	✓	Personnel (Personnel Policy; Incentives and Remuneration; Training; Youth Policy) About the Company (Ethics)
	Cooperation with universities on personnel training	✓	✓	Community (High quality industry-specific education)
	Cooperation agreements with RF regions, improvement of social climate in the regions of presence	✓	✓	Community (Social Investments), Sustainable Development of the Russian Regions and corporate responsibility practices in foreign assets
<i>Human Rights:</i> • Prevention of discrimination • Freedom of association and collective negotiations • Child labor • Forced or compulsory labor • Rights of indigenous peoples/ minorities • Grievance mechanisms in case of human rights violations	Charity Policy, Social and cultural projects contest	✓	✓	Community (Social Investments), Sustainable Development of the Russian Regions and corporate responsibility practices in foreign assets
	Human Rights	✓	✓	Personnel (Management approach; guarantees of employee labor rights and human rights) Community (Interaction with the indigenous minorities of the North)
<i>Community:</i> • Local communities • Anti-corruption • Government Policy • Anti-competitive behavior • Compliance				
<b>Economic category</b> • Market presence				



# ABOUT THE COMPANY



## General information

LUKOIL is one of the world's largest public vertically integrated oil and gas companies. A strong resource base, diversified assets, efficient management and new high-margin projects ensure high sustainability, performance growth and a strengthening of the Company's positions.

- The Company is responsible for 2% of global oil production, and 2% of global oil refining.
- In Russia, the figures are 15% for both oil production and refining.

>30  
countries  
worldwide


>60  
Russian  
regions

LUKOIL is active in more than 60 regions of Russia and more than 30 countries, including Russia. The main activities in Russia are concentrated in four<sup>1</sup> federal districts: the North-West, Volga, the Urals and the Southern Federal Districts. **G4-3 G4-6, G4-EC8**

PJSC LUKOIL<sup>2</sup> is the corporate center of the LUKOIL Group (based in Moscow), and coordinates and manages the organization, investment and finance in its subsidiaries. **G4-5**

The Company's business model is built on a full production cycle, from the extraction of hydrocarbon raw materials to the sale of petroleum products and petrochemical products. **DMA**

<sup>1</sup>  
G4-3, G4-6  
G4-5, DMA,  
G4-EC8

 For detailed description of the business model refer to the Annual Report for 2016, pp. 14-15.

<sup>1</sup> The Company considers these federal districts to be of significance due to the presence of downstream enterprises, strategic projects, and the impact of production on the environment and local communities.

<sup>2</sup> In July 2015 the Company changed its name to Public Joint Stock Company LUKOIL (PJSC LUKOIL) to ensure compliance with the requirements of Chapter 4 of the Civil Code of the Russian Federation.

11  
General  
information

22  
Strategy and  
management

27  
Corporate  
Governance

31  
Ethics

32  
Risk management  
and internal control

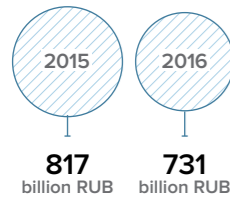
34  
Stakeholder  
engagement

37  
Supply  
chain

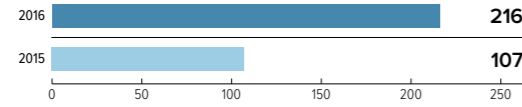




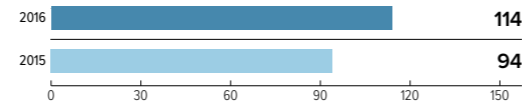
EBITDA:



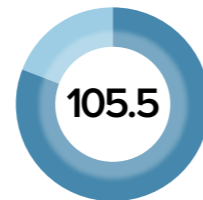
**Upstream Business Segment net profit in 2015–2016 at the LUKOIL Group, billion RUB**



**Refining, Trade and Marketing Business Segment net profit in 2015–2016 at the LUKOIL Group, billion RUB**



**The average number of employees in 2016, G4-9 thousand people**



	thousand people
in Russia	85.4
in foreign companies	20.1

**Upstream**

G4-9, G4-6

The Company performs oil and gas upstream activities in 12 countries across the globe<sup>1</sup>. The principal area of operation is Russia, while the largest projects abroad are implemented in Central Asia and the Middle East. **G4-6**



**49.5**  
million RUB  
per person

revenue per employee in 2016 **G4-9**  
(54.1 million RUB/person in 2015)

A total of 88 percent of all proved reserves of the Company and 86 percent of its commercial oil and gas production is based in Russia. West Siberia is the principal region by resource base size and oil production volumes. The resource base is of high quality. The bulk of reserves are conventional, which means upstream costs are among the lowest in the industry. The basis of gas production in Russia is the reserves in The Bolshekhetskaya Depression (Yamalo-Nenets Autonomous Area). The Nakhodkinskoye field is the main gas field, accounting for over half of all commercial gas produced by the Company in Russia.

The main events of the 2016 reporting period in Russia were the launch of the Filanovsky field, which is the largest oil field discovered in the Russian region of the Caspian Sea, and the startup of oil production at the Pyakyakhinskoye oil and gas condensate field in the northern region of West Siberia, which is of special importance since considerable volumes of natural gas will be produced here in addition to oil.

*See Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in Foreign Assets.*

In 2015–2016, in addition to the V. Filanovsky and the Pyakyakhinskoye fields, eleven new fields, predominantly in the Timan-Pechora and the Volga River Region, were brought into operation in Russia.

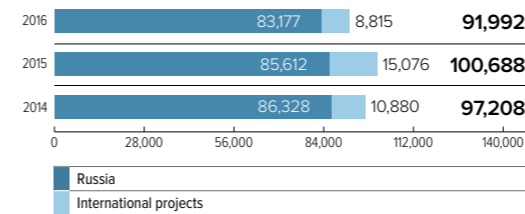
To boost operational efficiency, exploratory drilling is being stepped up in West Siberia, along with production of high-viscosity oil in the Timan-Pechora province.

In 2015, the LUKOIL Group entered a new promising market: The Company was awarded a contract for the Eastern Taimyr block in Western Siberia (the Krasnoyarsk Territory).

In 2016, a decision was made to step up exploratory drilling in Western Siberia, which should increase future production.

*See Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in the Foreign Assets.*

**Oil production, thousand tons G4-9, GRI G4 OG1**



Note. The negative impact on production figures is mainly due to reduction in the amounts of compensation oil received under the West Qurna 2 Project in Iraq, as a substantial part of the historical costs was already recovered in 2015. Reduced production in Western Siberia is due to the natural depletion of mature fields. Production was boosted, however, by the launch of two large fields (Filanovsky and Pyakyakhinskoye), increased exploratory drilling in West Siberia, and increased production in Timan-Pechora and the Pre-Ural regions, mainly achieved through modern mining methods.

In order to use natural resources efficiently and ensure full extraction, including hard-to-recover reserves, LUKOIL uses cutting-edge production methods including those designed by the Company's R&D department.

*See Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in Foreign Assets.*

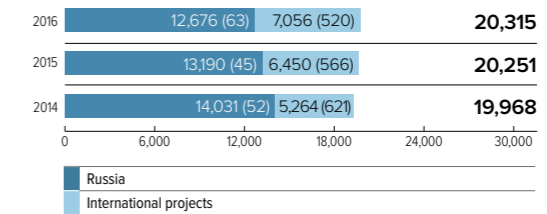
In other countries,<sup>2</sup> major upstream activities are performed in Romania, Nigeria, Norway, Uzbekistan and Iraq. A wildcat well in Romania's Black Sea shelf area was completed in 2015, with a new deposit discovered.



**11.4%**

growth of high-viscosity and hard-to-recover oil production across LUKOIL Group in 2016

**Commercial gas production (with share in production of affiliated entities), million cubic meters**



The main international gas production projects are in Kazakhstan and Uzbekistan, with the latter accounting for over half of the natural gas produced by the Company abroad. Production under the Kandym's Early Gas project began at the Kuvachi-Alat field in Uzbekistan in 2015, while construction of the Kandym Gas Processing Complex was initiated in 2016. Natural gas production remained stable throughout the reporting period.

G4-9, GRI G4 OG1, G4-13

<sup>1</sup>Hereafter in this section, information about the Company is given as of December 31, 2016, unless otherwise specified.

<sup>2</sup> The main changes that occurred in the reporting period are as follows: a deal to sell a 50 percent stake in Caspian Investment Resources Ltd. owned by a LUKOIL Group entity was finalized in 2015. **G4-13**



**G4-6, G4-4, G4-13**

## Refining

The Company's oil processing and petrochemical plants are located in Russia and four<sup>1</sup> European countries (Romania, Bulgaria, Italy and the Netherlands<sup>2</sup>), close to the key markets. **G4-6**

The Company makes a wide range of petroleum products, commercially refined gas and petrochemical products.

IN 2016:



**84.7%**

is the conversion rate reached at the Russian refineries (without mini-refineries)



**62.9%**

is the light petroleum output reached at the Russian refineries



**86.0%**

is the conversion rate reached at foreign refineries



**72.7%**

is the light petroleum output reached at the facilities abroad

### The main products G4-4



#### Petroleum products

gasolines, diesel, vessel, bunkering fuel, aviation kerosene, fuel gasoil, residual fuel, vacuum gasoil, oils



#### Petrochemical products

polymers and monomers, organic synthesis products, pyrolysis products and fuel fractions



#### Gas chemistry products

NGL, LPG, residue gas, etc.



#### LUKOIL's major brands include:

several ECTO gasoline and diesel fuels, Genesis oils and others **G4-4**

*For more information, see the Analyst's Guidebook for 2016*

### Russian refinery upgrade program

The large-scale program to upgrade Russian refineries concluded in 2016, resulting in a greater conversion rate, new products, decreased heavy oil and vacuum gas oil concentrations alongside increased production

of light oils. Today, LUKOIL refineries exceed the Russian average in terms of capacity, efficiency and environmental protection.



A new product, ECTO 100 gasoline, was readied for industrial production in 2016. Large-scale projects implemented during the reporting period include the 2015 launch of the oil residue processing unit at the Perm refinery, and the 2016 launch of Russia's largest vacuum gas oil deep processing complex at the Volgograd refinery. The conclusion of the upgrade program marked the complete fulfillment by the Company of its obligations under the 2011 quadruple agreement between oil companies, the Russian Federal Antimonopoly Service, the Federal Service for Environmental, Technological, and Nuclear Supervision (Rostekhnadzor) and the Federal Agency for Technical Regulation and Metrology (Rosstandart).

In 2012, all Russian refineries of the LUKOIL Group transferred to EURO 5 (European emission standard 5) car fuels, which is mandatory for Europe and became mandatory in Russia in 2016.

The LUKOIL Neftohim Burgas refinery in Bulgaria also underwent a large-scale upgrade, which saw a unique complex being constructed from 2012 to 2015 to process hard residues using the H-oil tar



### LUKOIL Group refining

	2014	2015	2016
Primary oil processing, thousand tons	68,419	65,385	66,805
Petroleum product output, thousand tons	65,805	61,750	63,069
Petroleum and wet gas processing, million cubic meters	3,206.7	3,376.0	3,534.4
Natural gas treatment, million cubic meters	14.3	284.4	366.8
NGL processing, thousand tons	710.0	550.1	392.0

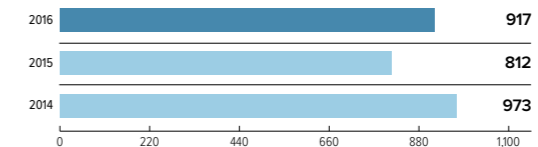
Note. The data is for refineries owned or controlled by the Group (per Group's share).

hydrocracking technology. The facility converts high sulphur residual tar to Euro 6 standard light oil and the pollutant emission levels during the refining process are significantly below normative values.

Lubricants are produced at Russian plants in Perm, Volgograd and Tyumen, at Company-owned plants in Romania, Finland, Turkey and Austria (managed by OOO LLK-International), and by joint enterprises. A plant with a 100,000 ton annual capacity is being built in Kazakhstan.

There are 600 lubricants and oils, including products that were designed by the Company's R&D. Many products have won the approval of leading carmakers and equipment manufacturers and represent a quality alternative to imported products in Russia. Consumers include, among others, carmakers, authorized service centers, and public transport companies.

### Lubricant Production at the LUKOIL Group, thousand tons



Note. The data is for lubricant production at plants owned by the Company.



**>112**

billion RUB

invested in refining by LUKOIL Group entities in total in 2015–2016



**>100**

countries

scope of lubricant product sales

<sup>1</sup> A deal to sell a 100 percent stake in LUKOIL Chemical B.V., which was owned by OOO Karpatneftkhim (Ukraine), was finalized in February 2017. **G4-13**

<sup>2</sup> The Company owns a 45 percent stake in the Zeeland oil refinery.



### Trade and marketing

G4-8, G4-6, G4-9, G4-13, G4-PR5

Wholesale and retail trade in oil and petroleum products covers Russia, Europe, South Eastern Asia, Central and Northern America and other regions, totaling 27 countries. The Company possesses an extensive logistics and distribution network, including in-house offshore terminals and tank farms. **G4-8** Trading is carried out through the LITASKO subsidiary in over 100 countries. **G4-6**



**13.9**  
million tons

of petroleum products were sold in 2016 at filling stations **G4-9**

Almost half of our engine fuels are sold through retail. The LUKOIL Group marketing network is the main channel of engine fuel sales; as of late 2016, it had 5,309 filling stations<sup>1</sup>, half of which (2,603) were based in Russia. Most retail sales in Russia take place in the Southern, North Western and Volga federal districts. Sales of premium products such as ECTO gasolines and fuels and Genesis lubricants have grown. **G4-8**

### Product Quality Control: from Refinery to End Consumer

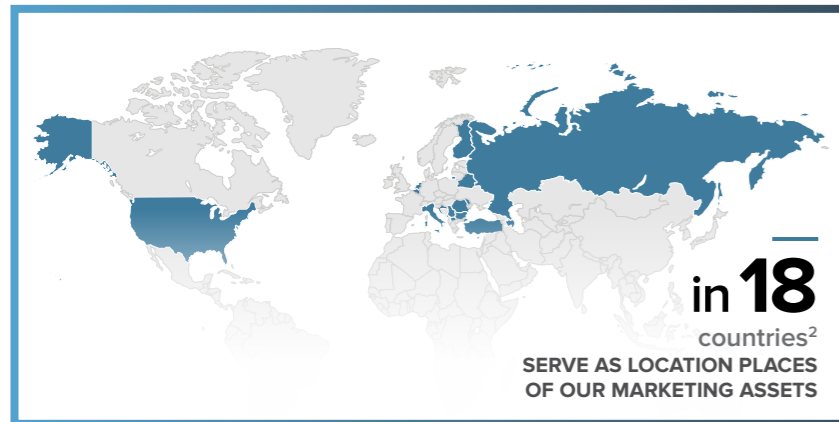
A focus on the needs and expectations of end customers, continuous improvement of technologies and an excellent management methodology are key priorities for organizations specializing in oil marketing and the production and sale of lubricants. **G4-PR5**

Continuous multistage quality control of engine fuel is carried out throughout the entire product supply chain: from refineries to bulk plants, filling stations and fueling complexes.

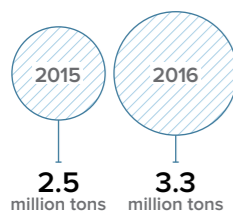
Bulk plants have accredited laboratories that perform quality control tests on incoming fuels from manufacturing plants. Copies of the quality control certificates issued from these tests are available to the end consumer at filling stations.

Filling stations control the quality of fuel brought in by tankers and the fuel in the filling stations' tanks are subjected to scheduled checks as well as unscheduled inspections. All petroleum products are subject to mandatory certification. Fuel for inspection is selected at random from filling stations located in different city districts and highways. Mobile laboratories with the equipment to conduct expert analysis of any pollution indicator are used for this testing.

The Group's plants that manufacture lubricants and specialized liquids analyze consumer demands and work consistently to increase customer satisfaction in accordance with ISO 9001 and ISO/TS 16949 and the requirements of global carmakers. Corporate clients such as General Motors, Ford, Volkswagen, Renault-Nissan and others conduct regular audits of the Company's plants to assess product quality and production efficiency. An innovative tank authentication system is in place to protect against counterfeiting and to ensure consumer safety.



### Bunker fuel sales G4-9



The LUKOIL Group delivers petroleum products to airports in Russia and abroad, as well as marine fuel to sea and river ports of Russia, Bulgaria and those on the Danube. **G4-8**

In 2015, 2.8 million tons of aviation bunker fuel were sold and 2.7 million tons were sold in 2016. Fuel was sold through 12 in-house fueling complexes (FC)<sup>3</sup> and new FC were built in Yekaterinburg and Sheremetyevo.

<sup>1</sup> In-house, rented and franchised, including cold stacked.

<sup>2</sup> In 2015–2016, the marketing network in other countries was optimized through the sale of filling stations in Ukraine, Estonia, Poland, Latvia, Lithuania and Cyprus. **G4-13**

<sup>3</sup> Including joint enterprises with GAZPROMNEFT-AERO: OOO Yenisey FC (Krasnoyarsk) and ZAO Soveks (St. Petersburg).

### Power Engineering

LUKOIL is both a major consumer and producer of electrical energy. The Company produces electrical and thermal energy for external consumers

(commercial generation) and for internal needs (support power).

G4-9



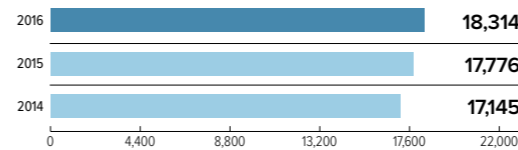
**73%**

is the LUKOIL Group's commercial generation share in the total power output in 2016

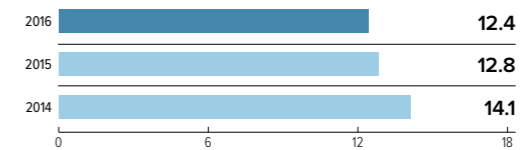
### Commercial and support power generation

#### General indicators G4-9

#### Power output, million kW\*h



#### Thermal energy output, million GCal



Note. Support power is excluded. The data are provided for the following assets: OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Rostovenergo, OOO LUKOIL-Stavropolenergo, OOO LUKOIL-Kubanenergo, OOO LUKOIL Astrakhanenergo, S.C.LUKOIL ENERGY & GAS ROMANIA S.R.L., OOO LUKOIL ENERGIA I GAZ KALUSH, Lukoil Energy & Gas Bulgaria EOOD, LUKOIL-Ekoenergo.

The Group's commercial generation assets include those located in the Southern and Northern Caucasus federal districts of Russia: 12 thermal power stations, four hydroelectric power plants (HPP) and two power plants with boilers using gas-piston units. In 2015, the Company completed a large-scale program aimed at commissioning its power generation facilities as provided by the applicable capacity supply agreements.

The development of support power generation contributes to the greater use of APG, and partly satisfies the LUKOIL Group's need for power. The support power output more than doubled in the reporting period due to the commissioning of the first part of the Usa power center (the Komi Republic) and the power center at the V. Filanovsky field.

### Support Power Generation in Russia

	2014	2015	2016
Installed capacity of power stations <sup>4</sup> , MW	678	1,164	1,539
Power output, million kW*h	3,273	3,897	5,339

<sup>4</sup> Taking into account the 2016 launch of the 100 MW unit at the Usa center, selling of Volgograd CHP 2 at the Volgograd Refinery (225 MW), and the launch of the Filanovsky OIRP (49.6 MW).

**THE USA POWER CENTER PROJECT HAS MADE PROVISIONS FOR THE CONSTRUCTION OF EIGHT STEAM PLANTS BY 2019.**





DMA, G4-EN3, G4-EN5

**Energy saving and energy efficiency activities**

Efficient management of fuel and energy is one of the main priorities of the LUKOIL Group.

The Company has approved its 2017 and 2018–2019 Energy Conservation Program of LUKOIL Group entities.

The activities are expected to save over 3,000 million RUB and decrease the energy consumption of: **DMA**



Electric power

**>240**  
million kW\*h



Thermal energy

**>400**  
thousand GCal



Boiler and furnace fuels

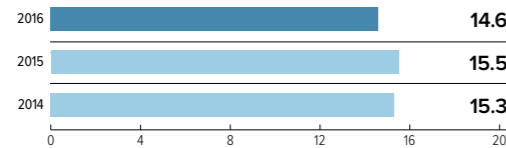
**>480**  
thousand tons of reference fuel

**Energy Resource Consumption at Russian LUKOIL Group entities G4-EN3**

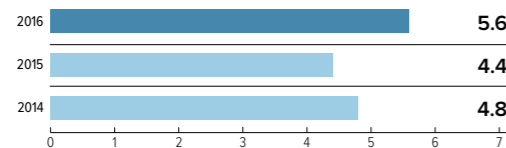
Types of energy resources consumed	2014	2015	2016
Electric power consumption (purchase and generation), billion kW*h	19.2	20.2	20.8
Thermal energy consumption (internal generation, purchase from external suppliers), million GCal	14.6	16.4	20.7
Other types of resources, boiler and furnace fuels, million tons of reference fuel	6.7	7.7	8.3

**Energy resources supplied under purchase and sale agreements in Russia**

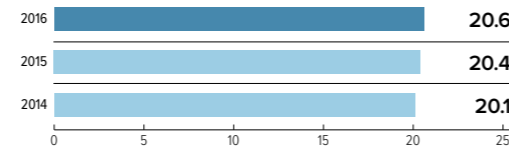
**Purchased electric power<sup>2</sup>, billion kW\*h**



**Purchased thermal energy<sup>2</sup>, million GCal**



**Specific power consumption during production of fluids in Russia, kW\*h/tons G4-EN5**



Note. The indicator reflects energy consumption for oil pumping, water injection into reservoirs to maintain reservoir pressure, oil treatment, oil gathering and transportation, and general needs.

<sup>1</sup> Data as of December 31, 2016.  
<sup>2</sup> Excluding transfers.



**in 27**  
subsidiaries<sup>1</sup>

an energy management system has been introduced that meets the requirements of the international standard ISO 50001: 2011

**Energy Savings from Implementation of the Energy Conservation Program in the LUKOIL Group Entities in Russia G4-EN6**

G4-EN6

Period	Electric power, mln kW*h	Thermal energy, thousand GCal	Boiler and furnace fuels, thousand tons of reference fuel	Financial savings, million RUB
2014	92	119	55	526
2015	108	168	49	764
2016	82	57	76	708

Note. The data are provided for the entities specializing in upstream activities, processing, petroleum chemistry, gas processing, product marketing, and transport.

**Energy Savings from Implementation of the Energy Conservation Program in LUKOIL Group Entities in Russia G4-EN6**

Period	Electric power, mln kW*h	Thermal energy, thousand GCal	Boiler and furnace fuels, thousand tons of reference fuel	Financial savings, million RUB
2015	15.7	122	13.6	597.7
2016	5.2	43	6.6	365

Note. The data are provided for the following entities: PETROTEL-LUKOIL S.A., LUKOIL Neftochim Burgas AD (Bulgaria) and product marketing entities.







**Around 4%**

of the total energy generated by the Company's power facilities is from renewables

**G4-EC7**  
**GRI G4 OG3**

**Renewable Energy Sources**

The cumulative capacity of power generating assets operating on renewable energy, including four HPPs, stood at 390 MW in 2016.

The first renewable pilot projects were the construction of solar parks at three filling stations located in Serbia and Russia in 2009. Over the reporting period, several projects were implemented, using renewables to generate energy for the internal consumption of the Company's entities. **G4-EC7**

As of the Report date, construction of the 10 MW solar plant was ongoing at the Volgograd refinery.

A Competence Center on renewables has been created in OOO LUKOIL-Ecoenergo for the benefit of LUKOIL Group entities that might be interested in implementation of renewable energy facilities and systems.

**Solar collectors**



Several filling stations are equipped with solar collectors to provide hot water and heat pumps for air conditioning and heating.

**Solar park in Bulgaria**



A 1.25 MW solar park was commissioned in 2011 at the Bulgarian refinery. The power it generates is supplied to the national grid and is subject to a preferential payment rate.

**Solar park and wind farm in Romania**



A 9 MW solar park was commissioned in 2014 at the Romanian refinery, along with the 84 MW Land Power wind farm. The power generated by solar parks and wind farms is supplied to the grid and is subject to market rate payment. "Green certificates" are issued based on energy generation volumes and are traded in a specialized market.

**Power generation (all sources) and the share of power generated from renewable sources in Russia GRI G4 OG3**

Indicator	2014	2015	2016
Power output (excluding small-scale generation), million kW*h	16,810	17,580	17,885
Share of electric power generated from renewable energy sources, %	5	3	4

**Renewable Power Generation Abroad GRI G4 OG3**

Renewables in other countries	2015	2016
<b>Installed electric power, MW</b>		
Solar parks	10.25	10.25
Wind farms	- <sup>1</sup>	84

<sup>1</sup> The 84 MW Land Power wind station was owned by a joint venture with Erg Renew in 2015, and was not reflected in the index.

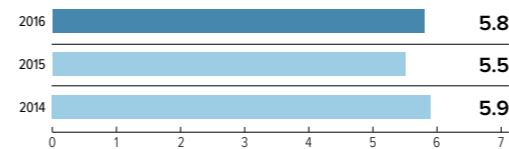


**THE CUMULATIVE CAPACITY OF POWER GENERATING ASSETS OPERATING ON RENEWABLE ENERGY, INCLUDING FOUR HPPS, STOOD AT 390 MW IN 2016.**

**Technological development**

LUKOIL is focused on generating ideas, searching for and using new technologies (including those specifically aimed at reducing the consumption of natural resources), materials and energy with the highest output possible. The achievement of this task is facilitated by the LUKOIL Group's research and project complex, whose aim is to search for and introduce new technologies, increase the efficiency of project solutions,

**Financing of Research and Technology in the LUKOIL Group entities in Russia, billion RUB**



**Participation in activities and initiatives**

PJSC LUKOIL is a member of a number of organizations and party to several initiatives: UN Global Compact Network Russia and the Social Charter of Russian Business (initiative of the RUIE (Russian Union of Industrialists and Entrepreneurs)), the Chamber of Commerce and Industry of the Russian Federation, the Russian Gas Society, the Russian Union of Oil and Gas Producers, the Carbon Disclosure Project, the International Labor Organization (ILO), etc. **G4-15**



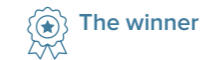
enhance technological competences and create a corporate knowledge base. The complex comprises of two head institutes with five branches across Russia. In total, the complex employs over 4,000 employees.

**G4-15**

Under the President of PJSC LUKOIL, a Research and Technology Board was set up as a permanent collegiate advisory body. Its main objectives are to identify priority areas of scientific development for LUKOIL Group entities, to ensure the effective use of intellectual and research potential, and to reduce operational costs through, in particular, the introduction of innovative resource- and energy-saving technologies and technical processes.

The Company has adopted its 2017 research and technology coordination program of the LUKOIL Group, accommodating over 750 topics.

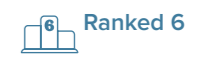
**Awards and ratings**



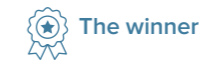
in the Best Corporate Governance category of the 2015 World Finance annual contest.



of Environmental Responsibility of the Russian Oil and Gas Companies in 2016.



in the 2016 Platts Top 250 Global Energy Company Ranking.



in the Best Exporter category in the Customs Olympus 2015 contest among foreign trade companies.



in the Filling Station category according to the Brand of Trust study for 2015 and 2016.



in the High Quality in Sustainability Reporting category in the Leaders of Russian Business: Performance and Responsibility – 2015 Russian National contest.



in the 2015 annual environmental efficiency rating of Russian oil and gas companies, compiled by the World Wildlife Fund (WWF) Russia and the CREON analytical group.



in the global oil and gas industry in the Boston Consulting Group's 2015 Creating Value through Active Portfolio Management Report.



in the Business Efficiency category of the RAEX-600 21st ranking of Russia's largest companies.



## Strategy and management

### Key strategic goals and points

G4-2

In the long-term, the LUKOIL Group is focused on consistent value creation, as well as on increasing the level of environmental, industrial and social security.

Strategic goals of the LUKOIL Group:

- Strengthening positions in the industry.
- Financial stability.
- Optimal balance.
- High corporate responsibility.

 *Analysis of fundamental factors and trends in the industry - See 2016 Annual Report, pp. 36–37. G4-2*

The Company has set the following key strategic points:

- financial stability and reasonable balance between current shareholders' profits and long-term capital investment;

- a balanced portfolio of projects that fully uses the potential of diversification and vertical integration and ensures the best return-risk ratio;
- development of technological competence and increased energy efficiency;
- planning activities around the principles of social and economic responsibility.

Key strategic points are formulated at the level of business sectors and business segments and are broken down by project portfolios and strategic groups of assets. This helps design balanced branch-wise development programs and build an optimal investment project portfolio on their basis.

### Key strategic points

Upstream Business Segment	Downstream Business Segment
<b>Upstream in Russia Business Sector</b> <ul style="list-style-type: none"> <li>• Ensuring a stable increase in hydrocarbon production.</li> <li>• Revival of the resource base: continuation of geological surveys in the Company's regions of presence.</li> <li>• Increasing the operational efficiency of older deposits and introducing more efficient production at newer ones, which are currently low-margin.</li> <li>• Enhancement of technological efficiency of reserve development and introduction of new, highly efficient technologies for cost-effective development of hard-to-recover reserves.</li> </ul>	<b>Oil Refining in Russia Business Sector</b> <ul style="list-style-type: none"> <li>• Implementation of targeted projects to increase the conversion rate and production of premium fuels.</li> <li>• Ensuring optimal refining load, based on a balanced production program in view of market conditions</li> </ul>
	<b>Petrochemicals Business Sector</b> <ul style="list-style-type: none"> <li>Increasing production efficiency through synergy with oil processing</li> </ul>
	<b>Product Marketing in Russia Business Sector</b> <ul style="list-style-type: none"> <li>Improving business consumer focus</li> </ul>
	<b>Power Engineering Business Sector</b> <ul style="list-style-type: none"> <li>Increasing the efficiency and reliability of commercial generation facilities, optimizing low-efficiency assets, upgrading thermal generation assets</li> </ul>
<b>Upstream Abroad Business Sector</b> <ul style="list-style-type: none"> <li>• Development of the resource base: continuation of geological surveys in Norway, Iraq and Mexico.</li> <li>• Development of priority projects: construction of the Kandym Gas Processing Complex (Uzbekistan), implementation of the Gissar Full Development Project (Uzbekistan)</li> </ul>	<b>Oil Processing Abroad Business Sector</b> <ul style="list-style-type: none"> <li>Ensuring optimal refining load, based on a balanced production program in view of market conditions</li> </ul>
	<b>Lubricant production</b> <ul style="list-style-type: none"> <li>Optimizing low-margin areas, expanding delivery range, increasing the range of the oil product portfolio</li> </ul>
	<b>Product Marketing Abroad Business Sector</b> <ul style="list-style-type: none"> <li>Optimizing European marketing assets that are not integrated into the general business model<sup>1</sup></li> </ul>

<sup>1</sup> As of the Report publication date the program has been completed.

### Strategic Development Program

The Strategic Development Program of the LUKOIL Group outlines long-term objectives with a 10-year planning horizon, major tasks and expected results for each business segment, as well as analysis of risks and opportunities. The program is preliminarily considered by the Strategy and Investment Committee under the Company's Board of Directors and approved by the Management Committee and the Board of Directors. The strategic tasks are subject to delegation to the managerial level through implementation of triennial medium-term plans. The adoption of a new strategy is scheduled for 2017.

The achievement of strategic goals is assessed based on the key performance indicators (KPI), which are used for planning, performance efficiency assessment, and motivation of managers and employees.

The list of key performance indicators is approved by the PJSC LUKOIL Management Committee and reviewed biennially. As part of the budget planning process, the KPIs are used as a goal-setting tool both during the development of benchmarks and the finalization of target performance indicators serving to assess the efficiency of activities.



#### Key documents

- *Regulations on the LUKOIL Group Development Strategy*
- *Strategy Development, Investment and Corporate Planning Policy*
- *Regulations on the LUKOIL Group Corporate Planning*
- *Regulations on the LUKOIL Group Corporate Management Reporting*
- *LUKOIL Group Strategic Development Program*
- *Regulations on the LUKOIL Group Investment Management*
- *LUKOIL Group Investment Program*
- *Major Principles of the LUKOIL Group Corporate Performance Assessment System*
- *List of Key Performance Indicators*

### Sustainable development management

In its business, LUKOIL focuses on the sustainable development goals as laid out in the UN Declaration "Transforming Our World: the 2030 Agenda for Sustainable Development", and seeks to integrate them into its business objectives, corporate culture and decision-making system.

**THE COMPANY SHARES THE UNDERSTANDING THAT SUSTAINABLE DEVELOPMENT REQUIRES A BALANCED COMBINATION OF ECONOMIC GROWTH WITH MANDATORY SOLUTIONS OF SOCIAL AND ENVIRONMENTAL PROBLEMS, ACCOMPANIED BY CONTINUOUS IMPROVEMENT OF CORPORATE GOVERNANCE.**





The achievement of seventeen global goals to secure the future for humanity and our planet, is expected to be fulfilled by means of a global action program in which a significant role is played by business. LUKOIL is already implementing

programs and providing assistance to the initiatives that meet sustainable development goals. With the adoption of the sustainable development policy and strategy, the Company's related activities will grow in focus and scale.



”

*"In Russia, sustainable development and corporate social responsibility are firmly on the agendas of major companies. Today these issues are directly tied to efficiency and competitiveness, and influence the assessment of company activities by financial institutions and various state and social structures.*

*LUKOIL is undoubtedly one of Russia's business leaders, as evidenced, in particular, by the rank it holds in the Sustainable Development Indexes compiled by the RUIE. This is the only independent Russian scoring system that has been included in the international database of sustainable development rankings. The Company that is a party to the United Nations Global Compact and the Social Charter of Russian Business, has been consistent in its progress in responsible business and transparency and the promotion of public accountability.*

*Development of a corporate sustainable development strategy is a logical move for LUKOIL. Its implementation can be expected to contribute to the achievement of UN goals, the fostering of Russia's economic competitiveness, and a strengthening of the Company's position in the Russian and global markets."*

**E. Feoktistova,**  
 Managing Director for Corporate Responsibility,  
 Sustainable Development and Social Entrepreneurship, RUIE

LUKOIL's sustainable development model seeks to meet the need of society for energy in an economically, environmentally and socially acceptable manner. The approach to sustainable development is based on the harmonization of the Company's short- and long-term interests with universal human values and national development priorities.

While developing and approving plans, budgets and investment programs, the Board of Directors considers whether it is feasible to achieve the goals outlined

in the Environmental Safety Program of the LUKOIL Group entities, as well as the Policy and Functional Strategy for Personnel Management and charity and sponsorship programs. Thus, sustainable development objectives are integrated in the general business strategy of the Company and they are attained through implementation of targeted programs and development plans across business segments.

Control over sustainable development implementation is carried out at both strategic and operational levels.

**G4-42, G4-46**

**Elements of the sustainable development management system G4-42 G4-46**


Management level	Functions
<b>Board of Directors</b>	<ul style="list-style-type: none"> <li>Identify priority activities</li> <li>Approve strategic long and medium-term plans and development programs</li> <li>Control the implementation of strategic goals, development plans and programs in the area of sustainable development</li> </ul>
<b>Board Committees:</b> Strategy and Investment Committee	<ul style="list-style-type: none"> <li>Prepare recommendations to set strategic goals</li> <li>Prepare recommendations to identify the Company's priority areas of business</li> <li>Assess the Company's long-term performance efficiency</li> </ul>
Human Resources and Compensation Committee	<ul style="list-style-type: none"> <li>Development of the main lines of the Company's human resources activities</li> <li>Supervise the introduction and implementation of the Company's policy on remuneration and various motivation programs, in particular, programs of long-term incentives for the employees of the Company and its subsidiaries</li> <li>Plan appointments, prepare recommendations regarding candidates for the position of the Company's Corporate Secretary, Management Committee members and the Company's President</li> </ul>
<b>Management Committee</b>	<ul style="list-style-type: none"> <li>Approve target programs</li> <li>Develop and adopt budget and investment programs in the sphere of sustainable development</li> <li>Exercise operational control over the implementation of target programs and development plans</li> </ul>
PJSC LUKOIL Health, Safety and Environment Committee (HSE)	<ul style="list-style-type: none"> <li>Develop the LUKOIL Group Entities' HSE policy and key performance indicators</li> <li>Assess the implementation efficiency of HSE activities</li> <li>Prepare proposals on the improvement of the LUKOIL Group HSE Management System, including efficient distribution of resources to meet the HSE requirements</li> <li>Consider the measures to manage considerable HSE risks, environmental aspects, including HSE action programs</li> </ul>
<b>PJSC LUKOIL Central Office:</b> heads of Divisions and structural subdivisions	Develop target programs and control their implementation
<b>LUKOIL Group entities:</b> heads of entities	Implement target programs

Note. The in-house documentation regulating sustainable development is listed in relevant chapters of the present Report



The list of KPIs includes a comprehensive indicator that characterizes performance in a number of aspects of sustainable development – Ensuring the Required Level of Occupational Safety, Health and Environmental Protection in the LUKOIL Group Entities.

The indicator is used to guide the work of the PJSC LUKOIL employees and managers and executives of the LUKOIL Group entities.

 For details on the key performance indicators see 2016 Annual Report, p. 108.

**Key Performance Indicators**

Specific KPI components	Criteria of the Ensuring the Required HSE Management Level Indicator
<b>Health, Safety and Environment (HSE) Indicators:</b>	
presence of fatal accidents for which the employer is held responsible	absence of fatal accidents for which the employer is held responsible in the period assessed
presence of fatal accidents as a result of work conducted by contractors, service providers or subcontractors	absence of fatal accidents as a result of work conducted by contractors, service providers or subcontractors
accident frequency rate	the accident frequency rate does not exceed the limit set by the decision of PJSC LUKOIL Management Board
emergency (incident) at a LUKOIL Group entity's facility, which has caused material damage	absence of an emergency (incident), which has caused material damage
execution of planned activities	complete execution of planned activities in order to meet strategic goals
violations of regulatory requirements	absence of violations of HSE regulatory requirements traced by supervisory authorities
compliance of the HSE management system with ISO 14001:2004 and OHSAS 18001:2007	absence of significant flaws in the Management System as evidenced by auditing reports in the period assessed
Environmental impact is assessed by the following indicators: <ul style="list-style-type: none"> <li>• specific indexes of air pollutant emissions;</li> <li>• specific polluted water discharges into surface water bodies;</li> <li>• ratio of the waste disposed during the reporting period to the newly generated waste.</li> </ul>	meeting the environmental impact targets for the reporting period to ensure consistent impact reduction



**The list of KPIs**

includes a comprehensive indicator that characterizes performance in a number of aspects of sustainable development

**Corporate Governance**

LUKOIL improves its system of corporate governance in accordance with Russian and international legislation, and the listing rules of stock exchanges on which the Company's securities are traded in Russia and abroad, in order to improve business management efficiency.

The Company intends to continue improving its corporate governance in order to enhance operational efficiency and strengthen its competitive advantage.

 **G4-34**

**Major 2015–2016 changes**

- The institution of the PJSC LUKOIL Corporate Secretary was established.
- The Internal Audit Service was established with functions separate from internal control and risk management.
- PJSC LUKOIL Health, Safety and Environment Committee was established.
- The following corporate documents were adopted:
  - ▶ Antimonopoly policy;
  - ▶ Compensation and Expense Reimbursement Policy for PJSC LUKOIL BoD members;
  - ▶ Regulations on the Provision of Information to the Shareholders of the Public Joint Stock Company LUKOIL Oil Company.
- Transition to the International Financial Reporting Standards was completed.



**Corporate Governance System**

The Corporate Governance System outlines the principles of interaction between PJSC LUKOIL and its shareholders and other stakeholders, the management approaches to corporate activities, and the opportunities granted to the shareholders to monitor the activities of the Company's management. An effective corporate governance system contributes to the attractiveness of the Company as an investment and, as a consequence, shareholder value. In terms of its corporate governance system, PJSC LUKOIL devotes particular attention to the protection of the rights of minority shareholders.

The Company's management bodies are the General Shareholders Meeting, PJSC LUKOIL Board of Directors, the President, and the Management Committee. The President and the Management Committee direct the Company's day-to-day

activities, implementing the decisions of the Board of Directors and the General Shareholders Meeting. **G4-34**

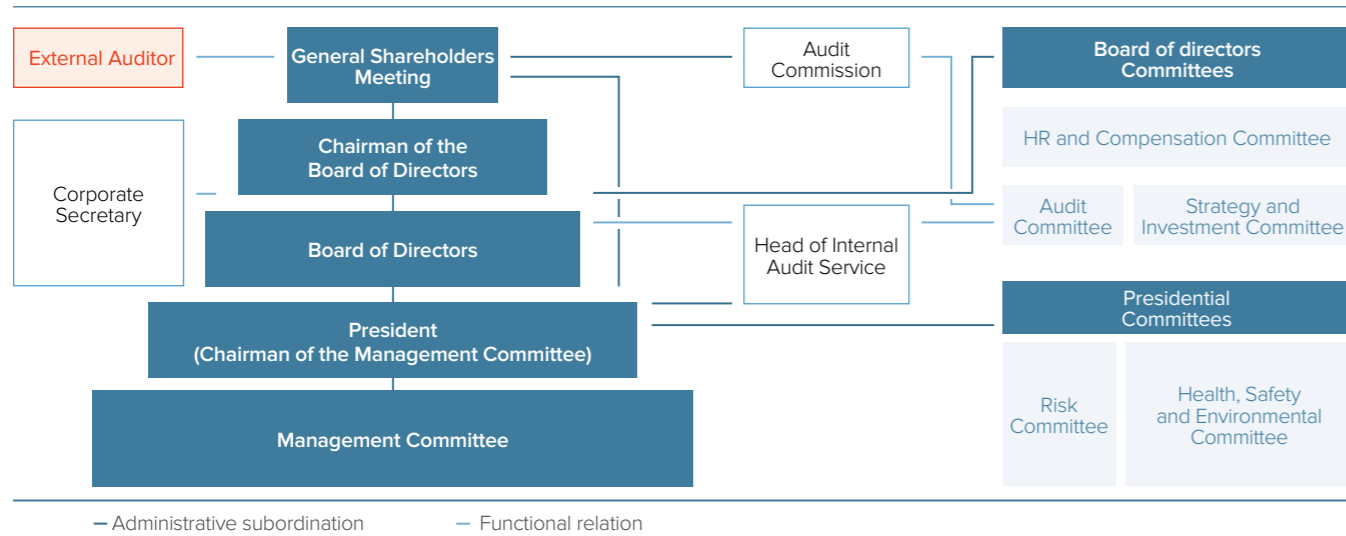


• For more details on the corporate governance structure, the competences of management bodies, the composition of the Board of Directors and the Management Committee, the participation of the Board of Directors and the Management Committee members in the management of the Company, remuneration system and other issues, see 2016 Annual Report, pp. 80-108.

• The principal documents are available on the corporate website (<http://www.lukoil.com/Company/CorporateGovernance/InternalDocuments>).



**Corporate governance structure of PJSC LUKOIL**



**General Shareholders Meeting**

The General Shareholders Meeting of the Public Joint Stock Company LUKOIL Oil Company is the highest governance body of the Company. It is authorized to make decisions on the most important issues.

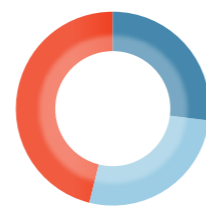
The annual general meeting is held every year in the form of joint attendance. The general meeting procedure gives each shareholder an equal opportunity to participate in a meaningful way.

**Board of Directors**

The Board is responsible for the general management of the Company's business except for the reserved matters of the General Shareholders Meeting. It plays a crucial role in the development of the corporate governance system, determines the business priorities of the Company, and performs strategic, mid-term and annual planning and performance assessment.

The Company is of the opinion that the composition of the Board is optimal in terms of the number of members and is well-balanced in terms of the proportion of independent, executive and non-executive directors, which ensures objectivity and permits continuous improvement of both the Board and the corporate governance system as a whole. The Chairman of the Board is a non-executive director.

**BoD composition, %**



Category	Percentage (%)
Executive	27
Non-executive	27
Independent	46

For more details on the composition of the Board and Board member assessment procedures, see 2016 Annual Report, pp. 30-31. G4-LA12 G4-44



**46%**

of PJSC LUKOIL BoD members are independent members

G4-LA12, G4-44

**Board Committees**

The Board Committees include: The Audit Committee, the Human Resources and Compensation Committee and the Strategy and Investment Committee. Since January 2016, most of the members of the Audit Committee and the Human Resources and Compensation Committee are fully compliant with the independence criteria of the Corporate Governance Code.

**Corporate Secretary**

In 2016, the Company's Board of Directors approved the Regulations on the Corporate Secretary of PJSC LUKOIL. The Corporate Secretary facilitates efficient interaction between the Company's shareholders, Board of Directors and executive management; he or she acts as the guarantor of the Company's management and governance bodies compliance with procedures and principles that ensure the implementation of the legitimate rights and interests of shareholders. In addition to other

functions, the Corporate Secretary ensures the proper operation of the Board of Directors and its Committees, plays a crucial role in the resolution of ethical issues, participates in the prevention of corporate conflicts, and oversees the execution of the provisions stipulated in in-house documentation.

G4-50

**BOD INVOLVEMENT IN SUSTAINABLE DEVELOPMENT**

BoD/committee meetings consider the issues related to sustainable development such as HSE performance efficiency, and social policy.



**Consideration of sustainable development issues by the Board of Directors G4-50**

The Board of Directors held 24 meetings in 2015 and 27 in 2016. At some of the meetings BoD, members addressed issues related to sustainable development, including:

- Major global economic development trends to 2030.
- Target benchmarks of the LUKOIL Group 2016-2018 Medium-Term Plan.
- Comparative data on the Company's performance indicators in recent years: technological efficiency in the Upstream segment.
- Introducing innovations in LUKOIL Group entities.
- Implementation of measures to increase production efficiency at late-stage fields using innovative technologies.
- Implementation status of the Program of Hard-to-Recover Oil Production.
- The industrial safety management system at the Company.
- Internal control, internal audit and risk management systems in LUKOIL Group entities.
- Performance assessment of the Board of Directors and its committees.
- The approval of the Compensation and Expense Reimbursement Policy of PJSC LUKOIL BoD Members.

At some of its meetings, the Strategy and Investment Committee addressed issues related to sustainable development, including:

- Implementation of the Program of Efficient APG Management in LUKOIL Group entities for 2014 – 2016.
- The assessment procedure for innovative approaches to oil and gas production.
- Major global economic development trends to 2030 and their impact on the Company's business.





2016

saw creation of PJSC LUKOIL Health, Safety and Environment Committee at the Company

### President and the Management Committee

The President is the single-person Executive Body of the Company; he or she is appointed by the General Shareholders Meeting for a term of five years and acts as Chairman of the Management Committee. The President manages the current operations of the Company and acts within the scope of his or her authority, established by the Charter of PJSC LUKOIL. Vagit Yusufovich Alekperov has been President of PJSC LUKOIL for over 20 years.

convened when necessary. The agenda is determined by the President and includes proposals put forward by the members of the Management Committee. The authority of the Management Committee is defined by the PJSC LUKOIL Charter.

#### PJSC LUKOIL Committees

The Company has established the Risk Committee, a collective body under the President of PJSC LUKOIL, and the Health, Safety and Environment Committee.

The Management Committee is a collective executive body that manages the current operations of the Company. The Management Committee is formed annually by the Board of Directors on the basis of proposals made by the President. The number of 2016 Management Committee members has been set at 15. The meetings of the Management Committee are

The Health, Safety and Environment Committee of PJSC LUKOIL is a collective body, which was set up in 2016. The Committee drafts HSE proposals for the President's consideration, the Management Committee and the Board of Directors.

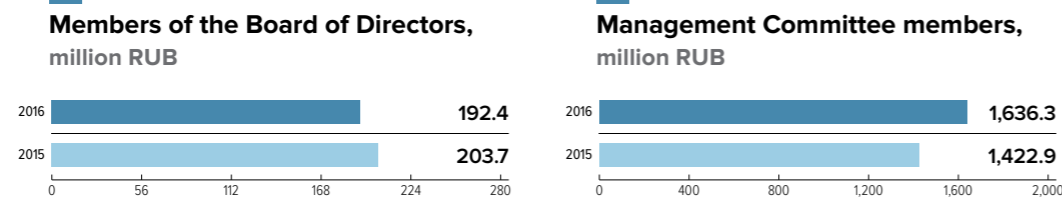
### Compensation of the Board of Directors and Management Committee

In accordance with the Corporate Governance Code, the Company pays equal annual remuneration to all members of the Board of Directors for performing their duties. The amount of remuneration is regularly compared with that offered at similar companies within the same business sector with a comparable scale of operations.

Remuneration of top managers (President, First Executive Vice President, First Vice Presidents, Senior Vice Presidents, Vice Presidents) is comprised of a fixed and variable component.

 For details on top management remuneration see 2016 Annual Report, pp. 106-107

#### Compensation of the highest governance body members, million RUB



Note. As for the BoD members who also act as the members of the Management Committee, the table features payments for their Board duties; the remuneration for their duties as the members of the Management Committee and other payments are included in PJSC LUKOIL Management Committee compensation.

## Ethics

### Antimonopoly policy DMA

In 2016, the Management Committee of PJSC LUKOIL adopted the Company's Antimonopoly Policy<sup>1</sup>, which was drafted in accordance with best business practices and the recommendations put forward by the Russian Federal Antimonopoly Service. The document establishes the main principles of competitive business conduct in target markets and stipulates the rules of personnel conduct to prevent violations of antimonopoly laws. Local regulations and compliance procedures are in place across Russian LUKOIL Group entities.

The Russian Federal Antimonopoly Service, its regional branches and commercial courts of various jurisdiction

considered 42 cases of antimonopoly violation against LUKOIL Group entities in 2015, and 111 cases in 2016. Of these, 15 cases were concluded in 2015 and 16 cases in 2016. For violations of the antimonopoly laws, Russian LUKOIL Group entities received administrative fines totaling 14.3 million RUB in 2015, and 0.7 million RUB in 2016. **G4-S07**

**DMA, G4-S07, G4-LA16, G4-56**

The Company has drawn up and continually improves upon a set of measures to prevent and eliminate antimonopoly violations by providing personnel training, holding seminars, conferences and roundtable discussions on antimonopoly regulations, etc.

### Code of Business Conduct G4-56

The Code of Business Conduct is a set of norms and rules of individual and collective behavior of Company employees. This document regulates relations between the Company's employees and business partners, shareholders, governmental agencies and public organizations. It also contains rules of conduct relating to environmental protection and industrial safety, prevention of conflicts of interests, as well as other issues.

To implement the Code of Business Conduct, identify violations and take necessary measures, the Company has established the Business Conduct and Ethics Commission, chaired by PJSC LUKOIL President and CEO Vagit Yusufovich Alekperov.

Any employee can contact the Business Ethics Commission if he or she believes they have witnessed, or is aware of, a violation of the Code. All information provided is reviewed by



independent experts. Individuals who come forward are guaranteed privacy and freedom from harassment and discrimination. **DMA**

In 2015–2016, seven complaints were made to the Business Ethics Commission by employees of the LUKOIL Group. The complaints were duly considered, investigations were conducted and measures were taken in each case to prevent issues recurring in the future. **G4-LA16**

<sup>1</sup> By the decision of the PJSC LUKOIL Management Committee (Minutes No.18 of August 29, 2016).



**G4-SO4, DMA, G4-2**

### Anti-corruption

LUKOIL Group entities strictly abide by the anti-corruption laws of the Russian Federation and similar legislation in the other countries in which they operate. The Company is developing a corporate culture, and introducing rules and procedures that prevent corruption and corporate fraud.

Anti-corruption procedures are in place at all LUKOIL Group entities, including those based outside Russia. **G4-SO4**

LUKOIL Group entities, which are present or operate in the US, strictly abide by the US Foreign Corrupt Practices Act. The entities have anti-corruption procedures in place which are compliant with legislation.

**In addition to the Code of Business Conduct, the following documents are in force at PJSC LUKOIL:**

- *Regulation on the Procedures for LUKOIL Group entities and their Employees in case of the Conflict of Interest;*
- *Regulations on Insider Information of the Public Joint Stock Company LUKOIL Oil Company;*
- *Regulations on Holding Tenders for the Selection of Suppliers and Contractors by the LUKOIL Group Entities;*
- *The provision on the procurement commission, PJSC LUKOIL's Directive on Measures to Ensure Economic Security at the LUKOIL Group, and other documents. DMA*

### Risk management and internal control

The Company has a Risk Management and Internal Control System (hereinafter – the RM&ICS). It aims to ensure that the following goals are met:

- strategic and business objectives;
- asset integrity;
- compliance of all reporting forms with established requirements;
- compliance with applicable laws and the regulations of LUKOIL Group entities.

In order to develop the RM&ICS, the Board of Directors approved the PJSC LUKOIL's Risk Management and Internal Control Policy in 2016. The document sets forth the key principles of and approaches to organizing the RM&ICS, its main goals, and the main objectives of its stakeholders, which are uniform and binding across the LUKOIL Group. **G4-2**

The RM&ICS is designed to be a three-line system to protect the interests of the Company. The practicality of organizing such a system of responsibility is aimed at achieving the goals of enhanced reliability in the Company's activities.

Risk management and internal control processes are integrated into the activities of LUKOIL Group entities. The Risk management regulatory and procedural

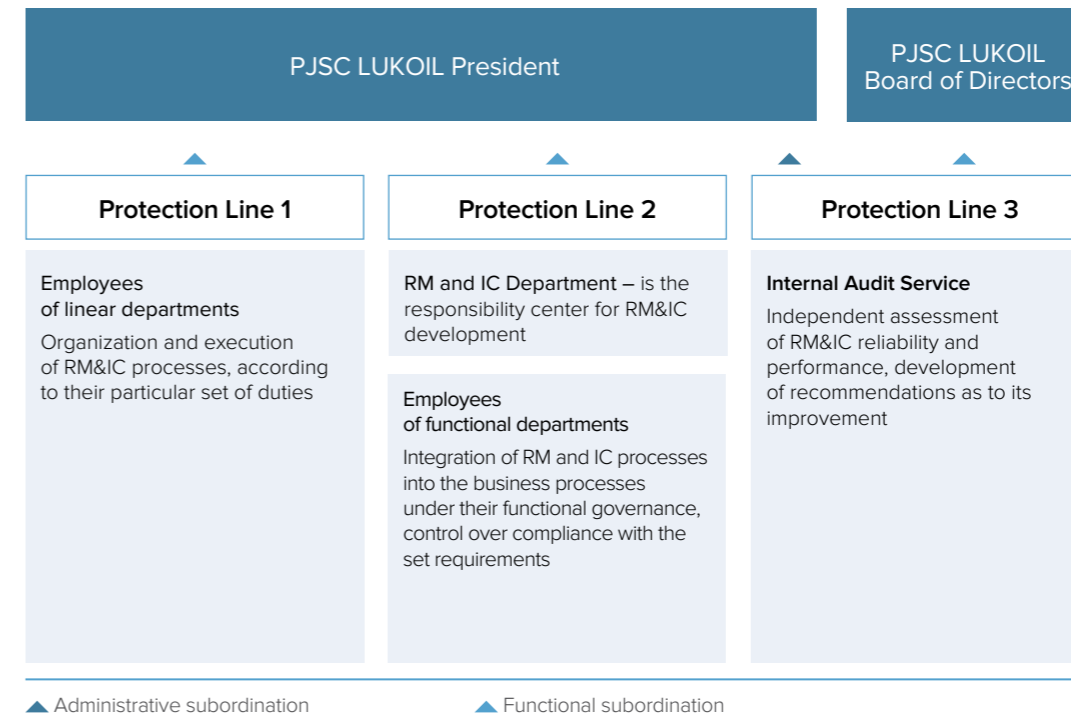
framework sets out the common requirements for all Company subsidiaries regarding risk management at all stages, and determines the management of separate, more significant risk categories. Risk assessments are conducted regularly, and information about the risk portfolios of LUKOIL Group entities are included in annual reports considered by the Board of Directors and the Audit Committee.

*For more information about the function of the risk management system, its participants and the changes to the system during the reporting period, see 2016 Annual Report, pp. 110-111.*

The Group has identified the most significant risks affecting the activities of LUKOIL Group entities and has performed qualitative and quantitative assessments. It has established levels of acceptability for each significant risk and has developed measures designed to reduce or eliminate their negative impact. The implementation and effectiveness of these measures are monitored.

*The full list of risks and management procedures is available in the 2016 Annual Report. Annex 2.*

### Protection System of Company's Interests



**3**  
lines of protection  
of the Company's interests are in effect at LUKOIL RM&IC

### Environmental and Industrial Safety Risks

The risk management system identified various aspects of environmental and industrial safety risks. The main risk factors are related to changes in the legislative requirements of the countries of presence, the failure of production equipment, the work done by contractors, as well as onshore and Arctic area operations. The Health, Safety and Environment

Management System was set up by the Company and operates successfully to mitigate these risks. Risk management involves the adoption of preventive measures and the implementation of investment projects to reduce the likelihood of their occurrence. Since 2003, the LUKOIL Group has had a system of insurance protection against risks that pose a threat to its business<sup>1</sup>.



<sup>1</sup> For more information see <http://www.lukoil.com/Company/InsurancePolicy>.



## Stakeholder Engagement

**G4-25, G4-26**

LUKOIL considers stakeholder engagement to be an aspect of responsible business practice and develops a systematic approach to interaction and joint

activities to resolve issues of mutual interest. LUKOIL is increasing the transparency and quality of stakeholder engagement to harmonize and balance interests.

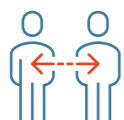
### Stakeholder identification and selection

The Company follows the following principles of identifying and selecting stakeholders: **G4-25**



#### Dependency

Stakeholders that are considerably dependent on the Company's activities



#### Responsibility

Parties the Company has obligations to (by contract, agreement etc.)



#### Influence

Stakeholders that have a high degree of influence over the Company's activities and performance



#### Stress

Stakeholders that require an urgent response



#### Strategy

Cooperation with stakeholders important to the Company's strategic outlook

The Company is also guided by legislation of the Russian Federation and that of the countries in which it is present, and other documents which set out the principles of stakeholder engagement (such as Stakeholder Engagement Standard AA1000SES (2015)).

### Forms of engagement

The process of interaction with stakeholders is carried out at all levels of the Company's management. A wide range of mechanisms and forms of cooperation are used which correspond to the nature of the issues and the scope of the tasks being solved that are within the scope of mutual interests.

With some stakeholder groups (regional and federal authorities, trade unions, public and international organizations, families and communities of indigenous peoples, business partners), the Company builds relationships on the basis of cooperation or partnership agreements.

Agreements are preceded by negotiations in which each party can state its position so that a mutually satisfying solution can be found. Fulfillment of obligations is monitored to give each party an

**Stakeholder engagement is regulated by a number of corporate documents including:**

- *PSJC LUKOIL Charter;*
- *OAO LUKOIL's Code of Business Conduct;*
- *OAO LUKOIL's Social Code;*
- *OAO LUKOIL's HSE Policy in the 21st Century;*
- *OAO LUKOIL's Personnel Management Policy;*
- *OAO LUKOIL Shareholder Policy;*
- *Regulations on the Information Policy of the Public Joint Stock Company LUKOIL Oil Company.*

opportunity to assess the results of engagement. The success of an agreement is, as a rule, discussed with stakeholders, both privately and at public events. **G4-26**

Surveys initiated by the Company are an effective feedback mechanism. For nearly 10 years, LUKOIL subsidiaries have conducted annual consumer

satisfaction surveys. LUKOIL also studies the opinions of employees through opinion polls. For the first time, in 2016, a survey was conducted of organizations with which the Company regularly interacts on the content and essential topics of the Sustainability Report. **G4-PR5**

The Company uses the following indicators to assess the success of its stakeholder engagement system:

- number of proposals made (during dialogues, public hearings, surveys);
- fulfillment of the Company's obligations.



**FOR THE FIRST TIME, IN 2016, A SURVEY WAS CONDUCTED OF ORGANIZATIONS WITH WHICH THE COMPANY REGULARLY INTERACTS ON THE CONTENT AND ESSENTIAL TOPICS OF THE SUSTAINABILITY REPORT.**

### Key stakeholder groups

**Regulatory authorities.** The Company operates in several countries with significant variance in legislation. LUKOIL participates in the work of official bodies and expert panels that discuss issues and draft laws pertaining to the oil and gas industry. In particular, the Company is a member of the National Council for Professional Qualifications under the President of Russia. **G4-24**

**Shareholders and investors.** LUKOIL's investors are Russian and foreign organizations and persons with various investment strategies. The Company seeks to continually increase transparency, in particular, by publishing information beyond what is required by law. Information requests from investors are processed and responded to promptly on a continuing basis.

Given the growing importance of sustainable development to the investment community, in 2016, this issue was highlighted in order to improve the effectiveness of our communication. During the reporting period, responses to information requests were provided, while meetings and conference calls regarding sustainable development were held with analysts from investment funds and specialized analytical firms.

**Personnel and trade unions.** Social partnership forms the basis for the Company's relationship with employees and trade unions. LUKOIL's social strategy seeks to maintain jobs and a positive working environment, and to promote stability in the labor market in the regions where it maintains a presence. The Company has developed tried-and-tested tools of social partnerships in the form of a three-level system of agreements between the employer, trade unions and employees. A key social partner of the Company is the International Association of Trade Union Organizations of PJSC LUKOIL (IATUO).

**Product consumers.** Consumers of the Company's products include organizations active in various economic spheres and private individuals. LUKOIL follows the Improve What You Produce strategy, which has provided new, quality products and services for customers. The Company adopted the concept of the "customer-oriented filling station", within the framework of which, a mechanism for studying consumers' opinions was introduced and measures taken to increase their attractiveness and ability to deliver customer satisfaction.

**G4-24, G4-PR5**



#### AA1000SES (2015)

The Company acts in line with the Stakeholder engagement standard



**G4-PR5**

The LUKOIL Hotline is in place to build trust with customers and to receive their feedback<sup>1</sup>. A unified center receives and processes customer requests from all over Russia. Customers can, in real time, receive information on the cost of fuel and products at each Russian LUKOIL filling station, or submit their complaints and requests. The Mystery Client program is also in place to improve service at filling stations.

A number of subsidiaries monitor customer satisfaction. For instance, OOO LUKOIL-AERO scored 9.10 points out of 10 according to customer satisfaction monitoring<sup>2</sup> in 2015. **G4-PR5**

**Local communities.** Social investment programs are implemented with continuous contact with stakeholders to achieve a balance of interests; meetings are held

with grantees, partners, local municipal and public organizations. Considerable attention is devoted to relations with the environmental community and local residents in the regions where LUKOIL maintains a presence regarding environmental protection. LUKOIL is broadening its channels for stakeholder engagement. For instance, in 2015, LUKOIL-Komi set up a round-the-clock environmental hotline.<sup>3</sup> There has also been long-term cooperation with a number of public organizations.

The Company also participates in, organizes and sponsors forums, specialized and regional conferences, roundtable discussions and other events. Among other things, LUKOIL acts as a permanent sponsor of major economic forums in St. Petersburg and Sochi, large-scale sports events, theater performances, exhibitions, road tours and other events of national significance.

## International Cooperation

The Company is party to a number of international projects that focus on the resolution of global problems of sustainable development, as well as social and humanitarian issues.

### Partnerships for Youth Employment in the Commonwealth of Independent States

Since 2012, the Agreement between PJSC LUKOIL and the International Labor Organization has served as a basis for the international project Partnership for Youth Employment in the Commonwealth of Independent States, which involves nine Eastern European and Central Asian countries, including Russia. The project aims to improve domestic youth employment programs. It is being implemented most widely in Azerbaijan, Kazakhstan and Russia. At the request of the participating countries, the project supports scientific research in areas that are of importance to them.

### Caress the World global project

LUKOIL participates in Caress the World, a unique art project that seeks to promote peace and tolerance, bringing the Earth's population together, and fostering mutual understanding between people of various ethnicities and cultures. The mobile exhibition set off in the North Pole and intends to pass through all 194 UN-country members before finishing its journey in the South Pole. Drawing support from partners all over the world, the project has already been to 30 countries.

In 2015, as part of the project, a work of art was installed in the Company's head office in the form of a cube with a multitude of hands embracing the World and uniting all its inhabitants.



In 2015,

LUKOIL-Komi set up a round-the-clock environmental hotline<sup>3</sup>



Caress the World global project

*"For us, it is very symbolic... because we operate in dozens of countries today. And for me, personally, this installation is associated with the many countries to which we have extended the hand of friendship and have received, in return, a warm handshake"*

**Vagit Alekperov,**  
PJSC LUKOIL's  
President

<sup>1</sup>Hotline: 8-800-1000-911.

<sup>2</sup>The following indicators are monitored: delivery discipline; aviation fuel quality; aircraft fuel supply quality; price; time to respond to information requests on aviation fuel and aircraft fuel supply.

<sup>3</sup>Hotline: (82144) 5-55-50.

## Supply chain

LUKOIL annually purchases a significant amount of goods and services, involving a large number of entities. Procurement helps to maintain and increase the number of jobs in various sectors of the Russian economy, including small businesses and social entrepreneurship, and facilitates the financial capital flow that stimulates economic activity. **G4-12, G4-LA15**

## Holding of tenders

LUKOIL's procurement procedure seeks to create equal competitive conditions for all participants (applicants), and to ensure the impartial and efficient selection of suppliers and contractors with the best price-quality ratio. Participation in tenders promotes technological and innovative development of Russian companies.

The procurement activities of the LUKOIL Group are regulated by local regulatory acts in accordance with the legislation of the Russian Federation. The regulative framework of procurement is routinely updated, taking into account the experience gained by LUKOIL and other major Russian companies, to ensure compliance with Russian legislation.

Goods, work and services are mainly procured via open tenders with obligatory open competitive bidding on the subject of the tender. Information on bidding terms and procedures, requirements for applicants, and the list of required documents are available on the corporate website of PJSC LUKOIL and its subsidiaries in the Tender section.

The selection of goods, work and service suppliers is made in accordance with the Regulations on Holding Tenders for the Selection of Suppliers and Contractors by LUKOIL Group Entities. PJSC LUKOIL and its subsidiaries have permanently functioning bodies, which are authorized to select winning bids.



**G4-12, G4-LA15**

Bids are assessed by highly qualified experts and specialists. The current local regulations of the LUKOIL Group provide for a separate assessment of the technical and commercial parts of tender proposals. In assessing the technical part, quantitative and qualitative indicators are taken into account and are used to evaluate the capacity of an applicant to supply the goods, work or services stipulated in the tender. Price is assessed by experts based on competitive open bidding. The permanently functioning bodies of PJSC LUKOIL and its subsidiaries select a winner based on a final score, which is the sum of technical and commercial scores.

PJSC LUKOIL, and the subsidiaries in the Upstream Business Segment and the Oil Processing in Russia business sector use an electronic tender system. The advantages of the system are the minimization of paper documentation and the convenience and efficiency of sending and receiving the required documents and proposals. Bidding can be conducted electronically in real-time.

A contract is drawn up with the winner of the tender, which, subject to Russian legislation, serves as the basis for further agreements between both parties.



## Health, Safety and Environment (HSE) Requirements

When interacting with suppliers and contractors, a significant emphasis is placed on health, safety and environment issues. PJSC LUKOIL's procedures to select suppliers and contractors and to monitor the fulfilment of contractual obligations promote a culture of safe and responsible business.

If a tender requires the inspection of an applicant's HSE system, experts of PJSC LUKOIL and its subsidiaries conduct an assessment in accordance with the corporate document "Regulations on Holding Tenders for the Selection of Suppliers and Contractors by LUKOIL Group Entities".

The assessment is based on a pro forma qualification questionnaire. The assessment seeks to determine the level of compliance of the applicant's HSE system with the requirements of the Company based on a number of criteria and indicators, including the occurrence of accidents, the frequency rate of fatal accidents, the variation in the number of accidents and incidents in the last three years. If the outcome of the assessment is unsatisfactory, the applicant will not be permitted to participate further in the tender.

## Corporate standards

In 2015, corporate regulations governing procurement were amended to toughen requirements for applicants regarding health and safety as well as in accident prevention at the facilities of subsidiaries.

In 2016, the Company adopted the PJSC LUKOIL Standard, "Health, Safety and Environment Management System: Requirements to contractor organizations". (STO-LUKOIL 1.6.5-2016) The Standard is mandatory for all Russian subsidiaries; it is applied by subsidiaries in other countries, taking into account the respective national legislation.

Furthermore, in accordance with supply and service contracts, all suppliers and contractors must commit to abide by legislation and corporate requirements, including the LUKOIL HSE Policy in the 21st Century, and the Key Safety Rules at LUKOIL Group Entities' Facilities.

Under contract, suppliers and contractors are liable for non-compliance or deficient compliance with the requirements of industrial, fire, radiation safety, emergency prevention and response, civil defense, and labor and environmental protection.

If, during the provision of services, a contractor fails to comply with HSE regulations, a report is drafted, outlining the identified issues. This is then communicated to the management of these companies and joint meetings are held to rectify and prevent violations.

The Standard applies to contractors that construct, maintain and repair production facilities; install, adjust and repair devices, machinery and equipment; repair and maintain buildings and structures, provide transport services, etc. The Standard features a description of procedures for the training of contractor employees, verification of PPE availability, as well as requirements regarding the main environmental impacts, etc.

The Standard is equally applicable to subcontractors.

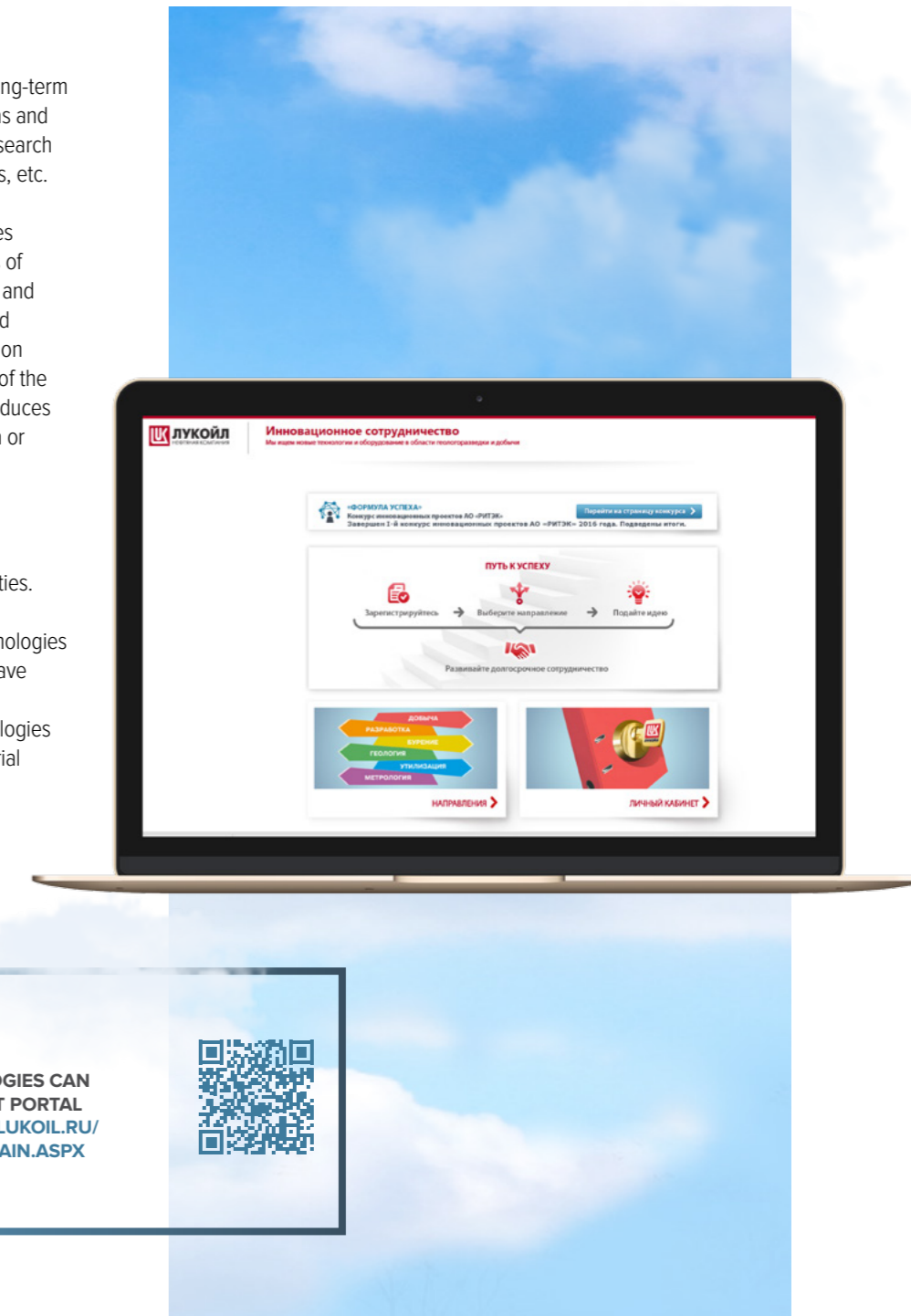
## Innovative partnership

The LUKOIL Group is focused on establishing long-term cooperation with those who generate new ideas and are capable of becoming reliable suppliers - research institutes, universities and equipment producers, etc.

The internet portal has a register of technologies that are of interest to the Company in the areas of exploration, drilling, hydrocarbon development and production. All incoming proposals are reviewed by LUKOIL experts who give recommendations on whether to continue cooperation with creators of the most promising ideas and technologies. This reduces the time between first encountering a new idea or technology and its testing and introduction.

PJSC LUKOIL is drawing up a database of counterparties with information on positive partnership experience with LUKOIL Group entities.

Since 2014, LUKOIL has kept a Register of technologies that have successfully completed testing and have been recommended for commercial use at the Company's fields. The Register includes technologies that have been tested at the Company's industrial sites, many of which are already in use.



THE LIST OF TECHNOLOGIES CAN BE FOUND AT INTERNET PORTAL  
[HTTPS://INNOVATIONS.LUKOIL.RU/SYSTEMS/GID/PAGES/MAIN.ASPX](https://innovations.lukoil.ru/systems/gid/pages/main.aspx)



### In 2016

the Company adopted PJSC LUKOIL Standard "Health, Safety and Environment Management System: Requirements to contractor organizations". STO-LUKOIL 1.6.5-2016



## HEALTH, SAFETY AND ENVIRONMENT



42 Management approach

45 Environmental safety program

57 Health and Safety

44 Management System

55 Biodiversity conservation

### The key principle followed by LUKOIL is to maintain an environmental and economic balance of production and environmental safety

#### 2015–2016 results

- A targeted corporate biodiversity conservation program has been adopted.
- Percentage of discharged contaminated wastewater brought down to 0.3% of the total wastewater generation.
- The Russian entities performed over and above their waste handling target, with the waste disposal exceeding its generation.

#### Plans for the Future

- Further improve the corporate integrated Health, Safety and Environment Management System.
- Implement measures set out in the LUKOIL Group's 2017–2019 Program of Health and Safety, Better Working Environment, Emergency Prevention and Response.
- Implement measures set out in the LUKOIL Group's 2014–2018 Environmental Safety Program.
- Implement measures set forth in the All-Russian Plan and Cooperation Agreement between the Russian Ministry of Natural Resources, the Russian Federal Supervisory Natural Resources Management Service, and PJSC LUKOIL, including construction of APG utilization and waste processing facilities of OOO LUKOIL-Komi, introduction of a marine environment management system at the fields of OOO LUKOIL-Nizhnevolzhskneft in the Caspian Sea; and construction of water treatment facilities on the sites of LUKOIL-Komi's Yareganeft Oil Mines Division.
- Commission four waste disposal sites in the Timan-Pechora Oil and Gas Province, and one in Western Siberia.



#### Performance improved

in terms of the key types of environmental impact (versus 2014):

- reduced atmospheric emissions,
- waste amounts on the entities' books,
- discharges of contaminated wastewater.



**12** thousand hectares

of disturbed land were remediated, re-soiled, and turned over to the owners.





**CPI 1.1, G4-15**



According to the Rating of Environmental Performance of Russian Oil and Gas Companies, PJSC LUKOIL is among the top five environmental performers.

**Environmental principles CPI 1.1**

The key principle followed by LUKOIL management is to maintain an environmental and economic balance of production, environmental safety, and the best practices employed by global oil and gas businesses. In its environmental activities, the Company is committed to the following principles:

- observe the requirements imposed by the laws of Russia and countries of the Company's presence;
- employ innovative practices to maintain environmental safety and enable efficient nature management;
- choose, for the most part, preventive measures over reactive ones;
- at all times follow the "zero discharge" principle, while operating in offshore locations;
- engage stakeholders;
- build information transparency.



**Management approach**

From its foundation, LUKOIL has pursued the goal of consistently reducing its adverse environmental impact by continuously improving its integrated Health, Safety, and Environment (HSE) Management System, adopting state-of-the-art technologies, equipment,

**Company engagement in environmental initiatives and environmental ratings**

LUKOIL is a party to environmental initiatives, such as the Green Office, and the Carbon Disclosure Project (CDP). The Green Office consists of self-imposed obligations to improve the environment in office spaces. Being a party to the project, the Company can bring down its energy consumption (by installing energy-saving lighting fixtures) and thus cut back on its greenhouse gas emissions. Under the international CDP project, the Company voluntarily discloses the details of its greenhouse gas emissions and takes measures to reduce them. **G4-15**

LUKOIL also signed a cooperation agreement with WWF Russia, whereby it engages in bilateral discussions, workshops, information and data exchange in relation to environmental projects and the conservation of nature.

In 2016, the Company launched an expedition to study the Atlantic walrus in the south-eastern Barents Sea in the areas exposed to the operations of OOO Varandey Terminal (jointly with WWF Russia and the Marine Mammal Council). The work involved using satellite transmitters and photographic recorders to observe the migratory routes of walrus and their patterns of breeding ground formation, as well as testing tissue samples for toxins.

According to the Rating of Environmental Performance of Russian Oil and Gas Companies<sup>1</sup>, PJSC LUKOIL is among the top five environmental performers. In 2016, LUKOIL was declared the winner in a special category For High Quality and Availability of Environmental Reports on Rating Indicators.

materials, and launching environmental initiatives. It currently proceeds with its fifth environmental safety program. These investments significantly reduce the Company's environmental footprint.

**Sustainable development goals – 2030 and Company activities**



**Responsible consumption and production**

**Execution**

- LUKOIL Group's Program of Health and Safety, Better Working Environment, Emergency Prevention and Response
  - LUKOIL Group's 2014–2018 Environmental Safety Program
- Subprograms:**
- Clean Air, Clean Water, Waste, Remediation, etc.

<http://www.lukoil.com/Responsibility/SafetyAndEnvironment/Ecology/EnvironmentalSafetyProgram>

- Industrial Environmental Monitoring Program

**Key strategic points (2021)**

- Reduction of pipeline failures and remediation of contaminated land
- Reduced contractor accident rate
- Key health and safety points

see "Personnel"



**Combating climate change**

**Execution**

- PJSC LUKOIL's stance on climate change

<http://www.lukoil.com/Responsibility/SafetyAndEnvironment/Ecology/GasEmissionRegulation>

**Key strategic points (2021)**

- Reach 95% of APG utilization by 2018
- Upgrade production facilities using the best available technologies
- Efficiently manage greenhouse gas emissions



**Preservation of marine ecosystems**

**Execution**

- Biodiversity Conservation Program

<http://www.lukoil.com/Responsibility/SafetyAndEnvironment/Ecology/BiodiversityConservationProgram>

**Key strategic points (2021)**

- Reduce water discharges into water bodies
- Take measures to preserve the fauna
- Support artificial reproduction of fish stock
- Monitor the environmental biosystem



**Preservation of onshore ecosystems**

**Execution**

- LUKOIL Group's 2014–2018 Environmental Safety Program

**Subprograms:**

- Clean Air,
- Clean Water,
- Waste,
- Remediation, etc.
- Industrial Environmental Monitoring Program

**Key strategic points (2021)**

- Fully eliminate "historic environmental damage"



**Implementation: basic documents**  
21st Century Health, Safety, and Environment Policy



<http://www.lukoil.com/Responsibility/SafetyAndEnvironment/HSEManagementSystem/HSEPolicy>

LUKOIL standards, HSE Management System series

<sup>1</sup> Organized by WWF Russia and the Russian advisory group CREON Energy.



## Management System DMA

**CPI 1.1  
DMA**



### The priorities of PJSC LUKOIL include:

- ensuring safe working conditions of employees
- protecting the health of employees of the LUKOIL Group and the population living in the Company's areas of operation
- maintaining a favorable environment based on the use of the best available technologies

The Corporate Integrated Health, Safety and Environment Management System (hereinafter referred to as the "Management System") is in service and continuously subject to improvements as required by ISO 14001, OHSAS 18001, Russian law or statutory acts enacted in the countries of LUKOIL Group's presence. Starting from 2001, the LUKOIL Group successfully passed external audits establishing its compliance with ISO 14001 and OHSAS 18001. Following a re-certification audit conducted in 2016, PJSC LUKOIL and 46 Group entities, including those outside Russia, were certified as compliant with these standards.

In 2016, the Company enacted and began to enforce requirements in regard to leadership safety visits by the management of the Company and LUKOIL Group entities, making them part of production facility visits. In addition to tackling production matters, these include inspections of facilities and monitoring of the LUKOIL Group and contractor (subcontractor) personnel to establish whether the HSE requirements are being followed and to discuss hazardous actions and safe operating practices.

Following-up on HSE matters is the responsibility of the First Executive Vice President, who heads the Health, Safety, and Environment Committee of PJSC LUKOIL. Day-to-day management and coordination of these activities is the responsibility of the Department for Industrial Safety, Environment, Research and Technology of PJSC LUKOIL.

The HSE Policy of the LUKOIL Group in the 21st Century defines the strategic goals, objectives, and obligations underpinning all functional long-term and annual goals, objectives, programs, plans, and activities. If there is no ground for adjustment, document revision is carried out every five years. **CPI 1.1**

In order to implement the Policy, the Company has developed targeted functional programs, including:

- An environmental safety program;
- A program of health and safety, better working environment, emergency prevention and response;
- A health, safety, and environment program;
- A biodiversity conservation program, and other measures.

The Management Committee annually reviews and approves an HSE report, which is an established form of performance review in the respective area by the management of the Company. This review is followed by decisions regarding future development paths, remedial and preventive measures. The data contained in the report are also taken into account while drafting the Development Strategy and investment programs of the LUKOIL Group.

### Policy Implementation Mechanics



Long-, mid-, and short-term environmental and occupational safety programs, better working conditions and safer working environments, emergency prevention and response.

### Audit



The Company conducts annual in-house audits of the management system across LUKOIL Group entities.

It regularly engages third party auditors to conduct external supervisory audits.

### Assessment of the management system efficiency



Assessments are based on:

- audit findings;
- monitoring data, including production control and corporate supervision data;
- results of HSE review contests

Both the Company's corporate center and subsidiaries must abide by the established key HSE performance indicators, some of which serve as incentives and are taken into account when determining the remuneration of the executive personnel.

The LUKOIL Group's management system is standardized as regards to contractor HSE requirements and covers all stages from pre-bid evaluation of bids to work performance of contractors. In 2016, the LUKOIL Group required all of its entities to do routine audits of their contractors (subcontractors) and hold joint Safety Days at least twice a year. The contractors (subcontractors) also have to adopt and enforce the Key Safety Rules at the facilities of LUKOIL Group Entities.



### The Company has a system

of corporate standards, series 1.6, in place, titled the Health, Safety and Environment Management System

## Environmental safety program

At present, the fifth targeted medium-term Environmental Safety Program of the LUKOIL Group entities for 2014–2018 (hereinafter referred to as the "Program") is being implemented, with a total funding of 128 billion rubles.<sup>1</sup>

The Program consists of several subprograms, i.e. Clean Air, Clean Water, Waste, Remediation, Emergency Prevention and Response, Research

and Development, Production Environmental Control, and Environmental Initiatives. (For the definitions of the Program indicators see STO LUKOIL 1.6.10-2012 Health, Safety and Environment Management System.) Data Collection and Reporting Requirements.

The Program establishes the quantitative targets that the Company seeks to achieve through annually planned activities.

### Results of the 2014–2016 Environmental Safety Program vs Targets in Russia

Indicator	2013 indicator	Target value (TV) to be reached by 2018 (vs 2013)	TV achieved at 2016 year end (over 2014 – 2016)	Planned for 2017
APG utilization level	88%	95%	91.7% (p. 48)	93.9%
Reduction of atmospheric emissions of pollutants	735,500 thousand tons annually	↓ by 130,000 tons	↓ by 108,100 tons (p. 49)	↓ by 125,000 tons
Additional treatment (prevention) of wastewater discharges	2.3 million cubic meters per year	6.8 million cubic meters (on an accrual basis over 2014–2018)	3.8 million cubic meters (p. 50)	5.1 million cubic meters
Water withdrawal for own needs	432.9 million cubic meters	↓ by 7.6 million cubic meters	↓ by 17 million cubic meters (p. 52)	Target achieved ahead of schedule
Disposal of generated oil-contaminated waste	–	300,000 tons (on an accrual basis over 2014–2018)	257,600 tons (p. 54)	55,000 tons
Disposal of waste accumulated prior to privatization	576,000 tons – weight as of January 1, 2014	380,000 tons (on an accrual basis over 2014–2018)	232,200 tons (p. 53)	50,000 tons
Restoration of disturbed and contaminated land	–	5,100 hectares (on an accrual basis over 2014–2018)	15,000 hectares (p. 54)	3,600 hectares
Elimination of sludge pits	–	1,008 pits	531 pits (p. 54)	150 pits
Overhaul and replacement of pipelines	1,100 km (annually)	4,000 km	3,300 km (p. 58-59)	1,300 km
Pipeline diagnostics	–	31,600 km	29,700 km (p. 59)	9,300 km
Inhibitor protection of pipelines	–	18,800 km	12,400 km (p. 59)	4,700 km

Note. Some targets are compared to those of 2013, before the Program was implemented. Some of the indicators are not compared with the data for 2013, as they are not indicative in terms of dynamics but depend, rather, on the number of licensed blocks in possession, drilling volumes, speed of work and other factors not related to managing aspects of sustainable development.

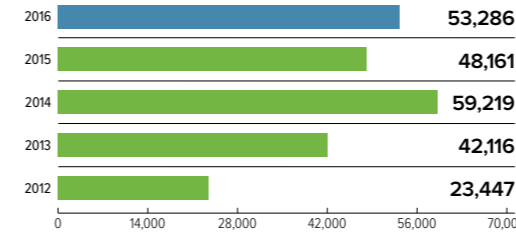
<sup>1</sup> Data for entities outside Russia are not included in this section.

**Key activities completed in 2015–2016**



Note. For environmental measures please see Appendix "LUKOIL Group Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in International Assets. 2015–2016."

**Environmental costs in Russia, million RUB G4-EN31 CPI 2.12**



Note. Includes the following cost types: removal and disposal of waste, clean-up of emissions and discharges, insurance, pollution clean-up, associated petroleum gas utilization projects, readiness for emergency response and minimization of the risk of such emergencies (sum of OPEX and CAPEX).

G4-EN31, CPI 2.12, DMA, GRI G4 OGG

**Clean Air: atmospheric emissions**

**Management Approach DMA**

The key measures to reduce atmospheric emissions of pollutants include:

- upgrading and construction of facilities whose operations increase APG utilization;
- upgrading and construction of new generation facilities by power generation entities;
- replacement and upgrading of equipment at industrial sites;
- adjustment of applied technologies to best suit particular needs.

**Utilization of associated petroleum gas**

Most atmospheric emissions are attributed to entities engaged in production (85%), with APG combustion products accounting for 65% of the total emissions.

In 2016, Russian LUKOIL Group entities flared 938 million cubic meters of APG. **GRI G4 OGG**

The Company's objective is to bring APG flaring to a minimum. For over a decade, LUKOIL has been investing in APG utilization projects, having started its APG flaring reduction effort long before legislators made it mandatory.

Russian entities are currently implementing the fourth Program of Efficient APG Management in LUKOIL Group entities for 2016–2018. Foreign entities are also developing similar programs and activities.

The key activities under the Russian Entities' Program include APG utilization at power generation facilities and product consumption for production needs, the construction of a gas transport infrastructure, and the search for consumers.

BETWEEN 2015 AND 2016, 43 APG UTILIZATION FACILITIES WERE PUT IN OPERATION.

ANOTHER 42 PROJECTS ARE CURRENTLY IN THEIR DESIGN, BUILDING, AND RECONSTRUCTION STAGES.

LUKOIL SPENDS ABOUT 20 BILLION RUB ANNUALLY ON CONSTRUCTION OF ITS APG UTILIZATION INFRASTRUCTURE

APG is injected into formations at fields to maintain formation pressure, generate electricity at supporting gas-fired power plants or for other production needs. Marketable associated gas is supplied to gas treatment plants and to local consumers.

OVER 11 YEARS, APG UTILIZATION ACROSS RUSSIAN ENTITIES GREW FROM 75% TO 91.7%.

IN 2016, THE APG UTILIZATION RATE OF THE LUKOIL GROUP WAS 92.1% (91.7% IN RUSSIA, AND 98.1% AT COMPANY FACILITIES OUTSIDE RUSSIA).

The Company expects to reach its target of 95% across Russian entities by 2018, for the most part through renovation of the Usinsk Gas Processing Plant in the Komi Republic and construction of utilization facilities in the North Caspian and other regions. Whether and to what extent such plans will be accomplished, depends on:

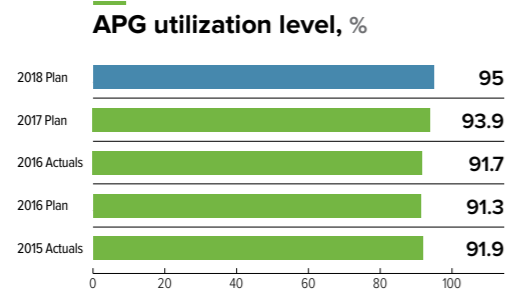
- emergence of the LUKOIL Group's new assets during the program implementation period;
- complexity of operations at separate producers within fields that are far away from existing infrastructure and feature minor APG resources, and other similar sites.



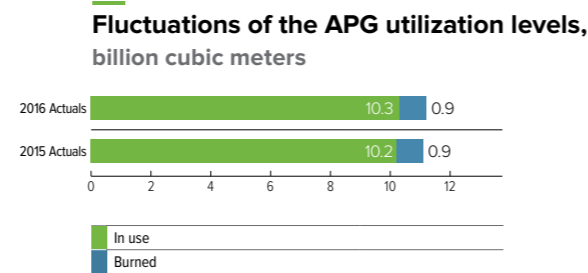
**Company's objective:**

minimize APG flaring





Note. These charts show the data of entities operating in Russia.



**G4-EN20 GC 7, 8  
CPI 2.6.1**

### Atmospheric emissions

Over the reporting period, the reduction of emissions specific to the Petrochemicals business sector was due to an increase in output: in February 2016, the first start-up complex gas processing plant was put into operation at the Stavrolen plant in Budennovsk, processing about 1 million tons of APG supplied from the North Caspian fields.

Reduction of specific emissions across the Midstream business sector was due to contracting out of motor and railroad transportation services to third parties.

A minor emissions growth across the Product Marketing in Russia business sector was due to the changes in the calculation methodology and structure of sold fuels (growth of small-scale wholesale diesel fuel sales).

The growth of specific emissions across the Power Engineering business sector was due

to a higher share of fuel oil in the fuel used to power LUKOIL-Volgogradenergo's CHP (raising to 12% in 2016) accounted for by the economic situation in the petroleum product market of the Volgograd Region. No maximum permitted emissions have been exceeded.

The fluctuations of emissions across the Oil and Gas Production in Russia business segment are due to APG flaring.

A substantial decrease in the SO<sub>2</sub> emissions was due to the cessation of flaring of APG with a high concentration of hydrogen sulfide, commissioning of oil treatment units with sulphur generation and granulation capabilities at LUKOIL-Komi's Bayandynskoye and Vostochno-Lambeyshorskoye fields, the products of which are heavily saturated with hydrogen sulfide. Upgrading of the flaring systems of the LUKOIL Group's oil and gas producing entities led to a substantial reduction in soot emissions.



**The Company does not use**

ozone-depleting substances on a commercial scale  
**G4-EN20 GC 7, 8**

### Specific emissions broken down into business sectors CPI 2.6.1

Business sector	2014	2015	2016
Oil and Gas Production in Russia, kg/tons of reference fuel of produced hydrocarbons	5.6	4.5	5.5
Oil Refining in Russia, kg/tons of refined oil	0.9	0.9	0.9
Petrochemicals, kg/tons of processed raw stock	3.8	2.3	1.0
Product Marketing and Distribution in Russia, kg/tons of sold petroleum products	0.6	0.7	0.7
Midstream, kg/tons of transported oil and petroleum products	0.2	0.1	0.1
Power Engineering, kg/tons of reference fuel consumed	3.6	2.9	3.7

### Atmospheric emissions of NO<sub>x</sub>, SO<sub>x</sub> and other major pollutants (net of CO<sub>2</sub>) in Russia, thousand tons G4-EN21 GC 7,8 CPI 2.6

Indicator	2014	2015	2016
<b>Total atmospheric emissions of pollutants, including:</b>	<b>656.4</b>	<b>541.9</b>	<b>627.5</b>
NO <sub>x</sub> emissions	34.2	38.9	44.0
SO <sub>2</sub> emissions	100.1	58.2	59.7
solids emissions	30.1	25.4	26.9
CO emissions	293.8	232.0	295.9
hydrocarbon emissions <sup>1</sup>	190.7	184.7	199.2
other emissions/discharges	7.5	2.7	1.8

<sup>1</sup> The methane emissions detailed in historic reports are incorporated into the Greenhouse gas emissions indicator, calculated separately.

### Climate change and reduction of greenhouse gas emissions

LUKOIL acknowledges the importance of combating global climate change, and supports Russia's contribution to the global effort to reduce greenhouse gas emissions.

The concept underlying the system for monitoring, reporting and verifying the volume of greenhouse gas emissions in Russia<sup>2</sup> involves the introduction of unified methods and the implementation of measures that will help reduce the carbon intensity of the Russian economy.

LUKOIL is involved in shaping of the statutory and regulatory framework governing greenhouse gas emissions and is set to plan its operations in accordance with the decisions that have been made.

Between 2015 and 2016, the Company worked to develop a corporate system to keep records

of and manage greenhouse gas emissions. The calculations use the Methodology developed by the Russian Ministry of Natural Resources<sup>3</sup>.

In 2016, Russian entities of the Group produced a total of 31.3 million CO<sub>2</sub> equivalent to direct GHG emissions. The largest contributors (78%) to the total direct emissions are fixed combustion sources.

**G4-EN15 GC7,8 CPI 2.5**

No guidelines for the calculation of indirect greenhouse gas emissions have been approved in Russia so far and the legislation under consideration is currently being assessed for its regulatory impact. Therefore, the Company is unable to calculate its indirect greenhouse gas emissions for 2016.

**G4-EN21 GC7,8  
CPI 2.6,  
G4-EN15 GC7,8  
CPI 2.5,  
G4-EN18 GC 8**

### Specific direct greenhouse gas emissions in Russia G4-EN18 GC 8 CPI 2.6

Business sector	2016
Oil and Gas Production in Russia, tons of CO <sub>2</sub> equivalent/tons of reference fuel of produced hydrocarbons	0.108
Oil Refining in Russia, tons of CO <sub>2</sub> equivalent/tons of processed raw stock	0.173
Petrochemicals, tons of CO <sub>2</sub> equivalent/tons of processed raw stock	0.352
Product Marketing and Distribution in Russia, tons of CO <sub>2</sub> equivalent/tons of sold petroleum products	0.001
Midstream, tons of CO <sub>2</sub> equivalent /tons of transported oil and petroleum products	0.004
Power Engineering, tons of CO <sub>2</sub> equivalent/MW*h of generated electricity/steam	0.339

<sup>2</sup> Russian Government Executive Order No. 716-r of April 22, 2015.

<sup>3</sup> Order No.300 of the Ministry of Natural Resources of June 30, 2015.

### Clean Water Subprogram

**DMA**  
G4-EN22 GC8  
CPI 2.7, 2.7.1, 2.7.2

#### Management Approach DMA

The key wastewater clearing measures include:

- in-process control over the quality of wastewater discharges and the condition of the impacted bodies of water;
- commissioning of new and/or revamping of existing water treatment facilities;
- identification of defects and a major overhaul of pipelines and their inhibitory protection;
- construction of initial water discharge and utilization systems;
- revision of pipeline passages through bodies of water;
- treatment of contaminated groundwater from drainage systems.

Offshore facilities follow the “zero discharge” principle that rules out any contamination and involved in-process environmental monitoring.

#### Clean Water Subprogram: Water discharge

The Environmental Safety Program has put a stop to discharges of contaminated (or insufficiently treated) wastewater into bodies of water across all business sectors, other than Oil and Gas Production in Russia.

Compared to 2014 levels, discharges of contaminated (insufficiently treated or untreated) wastewater by LUKOIL Group entities has decreased, mainly due to a complete cancellation of wastewater discharges by OOO LUKOIL-Volgogradenergo into bodies of water. Water treatment facilities were constructed at Pyakyakhinskoye, a field operated by OOO LUKOIL-West Siberia in the Yamal-Nenets Autonomous Area.

The accounting policy has been adjusted with respect to the discharge of wastewater: land disposal of wastewater has been excluded from the record in accordance with changes in Russian legislation. Nevertheless, the Company continues to tackle the issue of land disposal of contaminated wastewater, in particular, discharges of salt-wastewater into a sludge pit at Astrakhan SGP-110, operated by OOO LUKOIL-Astrakhanenergo. A project is underway to prevent wastewater filtration into subsurface horizons by waterproofing the bottom of the sludge pit with a polymer film.

#### THE “ZERO DISCHARGE” PRINCIPLE

is the central pillar of the environmental security system that LUKOIL implements while carrying out its offshore projects. “Zero Discharge” means a complete ban on burying or overboard discharges of any production or domestic waste. Following its collection and segregation, all waste is taken ashore for recycling or disposal. The “zero discharge” principle is followed strictly when carrying out both exploratory and production drilling, and during commercial hydrocarbon production. The approaches employed by the Company to enforce the “zero discharge” principle for its offshore projects are based on the recommendations made by HELCOM (Helsinki Commission) for countries operating in the Baltic offshore areas.

#### Variations of wastewater discharges in Russia, million cubic meters G4-EN22 GC8 CPI 2.7, 2.7.2

Indicator	2014	2015	2016
<b>Water discharges into surface water bodies including:</b>	<b>265.4</b>	<b>268.4</b>	<b>244.0</b>
clean according to standards	243.0	245.2	223.7
treated according to standards	20.7	21.8	19.5
under-treated	0.6	0.7	0.7
contaminated (untreated)	1.1	0.7	0

#### Specific discharges of contaminated wastewaters in Russia CPI 2.7.1

Business sector	2014	2015	2016
Oil and Gas Production in Russia, cubic meters/ton of reference fuel of produced hydrocarbons	0.005	0.005	0.005
Oil Refining in Russia, cubic meters/tons of refined oil	0	0	0
Petrochemicals, cubic meters/tons of processed raw stock	0	0	0
Product Marketing and Distribution in Russia, cubic meters/tons of sold petroleum products	0	0	0.001
Midstream, cubic meters/tons of transported oil and petroleum products	0	0.003	0.002
Power Engineering, cubic meters/TRF (tons of reference fuel) of consumed fuel	0.17	0.102	0.003

### Clean Water Subprogram: water withdrawal

#### Management approaches DMA

The key fresh water consumption reduction measures include:

- monitoring fresh water consumption;
- commissioning new and/or revamping the existing reverse water supply and recycling facilities.

The Company’s entities also operate in arid regions, where fresh water is scarce (Stavropol and Krasnodar Territories, Saratov, and Volgograd Regions). The issue is primarily addressed by putting water supply and recycling systems into service and ensuring the most beneficial use of the water withdrawn, including stratal water. As part of its social partnership with different Russian regions, the Company has ongoing projects to supply their residents with drinking water.

#### Water consumption

Most of the water consumption of the LUKOIL Group (i.e. over 90%) is used to satisfy production needs, of which, about 70% is used to meet demand from power and heat generation facilities, and about 20% goes to business units to maintain formation pressure within mineral extraction blocks.

LUKOIL Group entities also have their water intake facilities replenished by enterprises located within proximity of the Company’s sites, however, their share in the total water withdrawal has been declining.

Power engineering companies use water to produce steam and cool down CHP equipment. The specific water withdrawal in the business sector has been reduced due to the decommissioning of obsolete equipment.

In November 2016, at its Yarega field, OOO LUKOIL-Komi commissioned VPU-700, a water treatment unit (capacity: 700 cubic meters per hour) to treat stratal water and produce steam that is subsequently injected in pay beds during the production of high-viscosity oil. With this facility in operation, the company will cut back on its water intake from the reservoir and use stratal water more efficiently.

A reduction in specific water withdrawal in the Petrochemicals sector was due to expansion of production.

**A WATER TREATMENT PLANT WAS COMMISSIONED IN NOVEMBER 2016 AT THE YAREGA FIELD. WITH THIS FACILITY IN OPERATION, THE COMPANY WILL CUT BACK ON ITS WATER INTAKE FROM THE RESERVOIR**





**G4-EN8 GC 7,8  
CPI 2.3,  
CPI 2.3.1,  
G4-EN10 GC8  
CPI 2.4,  
G4-EN22 GC8  
CPI 2.7**

**Water withdrawal for own needs in Russia,**  
million cubic meters **G4-EN8 GC 7,8 CPI 2.3, G4-EN22 GC8 CPI 2.7**

Indicator	2014	2015	2016
<b>Water consumption, including:</b>	<b>525.0</b>	<b>526.8</b>	<b>522.2</b>
surface bodies of water	314.0	305.9	297.4
subsurface bodies of water	81.0	78.7	77.1
other sources (central water supply networks, etc.)	130.0	142.2	147.6
<b>Water consumption for own needs of the LUKOIL Group entities, including:</b>	<b>402.7</b>	<b>413.1</b>	<b>415.9</b>
business needs (excluding consumption to maintain formation pressure)	303.9	304.8	307.4
formation pressure maintenance	76.5	79.2	76.4

**Specific water withdrawal for own needs of LUKOIL Group entities in Russia CPI 2.3.1**

Business sector	2014	2015	2016
Oil and Gas Production in Russia, cubic meters/ton of reference fuel of produced hydrocarbons	1.0	1.0	1.0
Oil Refining in Russia, cubic meters/tons of refined oil	0.4	0.5	0.6
Petrochemicals, kg/tons of processed raw stock	21.2 <sup>1</sup>	12.8	6.2
Product Marketing and Distribution in Russia, cubic meters/tons of sold petroleum products	0.04	0.047	0.055
Midstream, cubic meters/tons of transported oil and petroleum products	0.04	0.045	0.039
Power engineering, cubic meters/TRF (tons of reference fuel) of consumed fuel	47.8	40.7	40.1

<sup>1</sup> Affected by downtime caused by the OOO Stavrolen accident.



**30%**

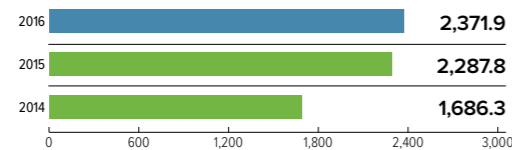
growth of recycled water volumes and graywater volumes in 2016 (compared to 2014)

Fresh water consumption across the business sectors remains low. New production facilities are fitted out with reverse water supply and recycling systems. Compared to 2014, in 2016, water circulation

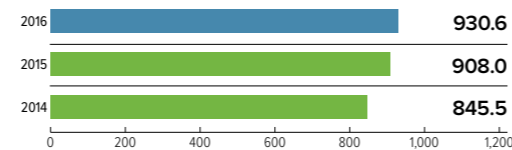
in the said systems went up 30% (or by 768 million cubic meters), which results in substantial savings of natural water resources.

**Reverse water supply and reused water in Russia,**  
**G4-EN10 GC8 CPI 2.4**

**Reverse water supply,**  
million cubic meters



**Reused water in Russia,**  
million cubic meters



**Waste Subprogram**

**Management approaches DMA**

Most production waste is generated during well drilling and operations. The main waste types are drilling

wastewater, drilling cuttings, used muds and oily sludges.

**DMA,  
GRI G4 OG7**

**The key measures to minimize the negative impact of waste include:**



**Reducing waste generation**

by ensuring a more efficient consumption of the raw resources and materials



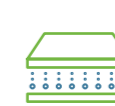
**Using waste**

to produce energy or in other industries (e.g. construction)



**Waste neutralization**

using the Company's own resources and expanding the scope of waste neutralization operations



**Taking waste**

to custom-built landfills



**Disposing<sup>2</sup> waste**

of previously accumulated waste (pre-privatization)

**Waste types and waste handling in Russia at year-end 2016 GRI G4 OG7**

Activities	Waste types	Waste generation assessment, %	Hazard class	Waste handling technique
Crude and natural gas sales	Drilling waste	70	IV and V	Previously, waste was buried inside sludge pits. It is currently processed by dedicated contractors. When sludge pits are decommissioned, technical and biological reclamation of the lands on which they were placed is carried out
	Rocky material produced during underground mining	20	V	LUKOIL is the only company in Russia to develop its oil fields using mining methods (in the Komi Republic). Rock brought to the surface is piled up in waste heaps and is not subject to disposal or neutralization
	Oil-contaminated waste	5-7	III	Oil-contaminated waste – oil-contaminated soil and sludges from tank and pipeline purging operations. LUKOIL uses tried and tested disposal (microbiological destruction) and neutralization (thermal treatment) techniques
Oil and gas processing	Oil-contaminated waste	About 30	III	Oil-contaminated waste – sludges from tank and pipeline purging operations, oil/petroleum products entrapped in process water, etc. Disposal methods: slop oil is fed back into the process, and sludges are neutralized at dedicated processing facilities
	Silts from biological treatment facilities	About 20	IV	Water used for production and residential purposes is treated to remove organic compounds. Excessive biosilt is regularly removed from treatment facilities, dried up, and may be used in other operations (as a fertilizer)
Production and distribution of electric power, gas, and water	Sludges produced during the chemical treatment of water	80	V	Landfilling

<sup>2</sup> Hereafter, in the "Waste" section, the term "disposal" is used in the sense of "utilization, neutralization, transfer to dedicated agencies for processing or disposal".

**G4-EN23 GC8  
CPI 2.8**

To reduce the adverse exposure to drilling waste, in its operations, the Company relies on environmentally safe mud components. On susceptible natural territories or in locations where the integrity of sludge reservoirs may be disrupted, it uses sumpless drilling (with purification and recurrent use of the liquid waste phase).

In 2016, Russian LUKOIL Group entities exceeded their performance targets, i.e. waste that was used, neutralized, transferred for disposal/neutralization to dedicated contractors, or buried (including drilling

waste accumulating in Western Siberia over 2014–2015) exceeded the waste that was generated.

The Company continues to dispose of waste accumulated in the pre-privatization period. In 2015–2016, the Company succeeded in reducing its total waste by almost 122,000 tons, with OOO LUKOIL-Volgogradneftepererabotka being the main contributor to this trend. As of January 1, 2017, 346,000 tons of pre-privatization oil-contaminated waste is still being held at the Group's facilities in Russia.

**Generation of 1st–5th hazard class waste and handling of waste in Russia<sup>1</sup>, thousand tons G4-EN23 GC8 CPI 2.8**

Indicator	2014	2015	2016
(a) Waste generation	1,437.0	1,015.7	1,032.9
(b) Quantities of waste that was used, neutralized, and submitted for disposal/neutralization to dedicated agencies, or buried	1,456.0	956.5	1,115.1
Ratio of (b) and (a)	1.01	0.94	1.08
Waste at year-end	845.8	911.9	765.1

<sup>1</sup> Volumes of accumulated and recovered wastes, as well as volumes of wastes in place as of the end of the year, do not include data on waste for Arkhangelskgeoldobycha

**Remediation of land**

The 2016 progress in the remediation of land disturbed as a result of construction of oil and field facilities was considerably ahead of the timeframe set out in the Environmental Safety Program. In 2015–2016, a total of 11,937,000 hectares of disturbed land was subjected to remediation with resoiling, and turned over to its owners. A great deal of land was remediated in KMAA-Yugra (AO RITEK being the user

of such land). The increase in the scope of work is related to expected changes in regional legislation (more stringent regulations on land reclamation and recovery).

At the same time, a downsizing of drilling operations lead to a curtailment of sludge pit decommissioning plans.

**Remediation of disturbed and oil-contaminated land in Russia**

Indicator	2014	2015	2016
Area of remediated land, ha	3,026	3,528 <sup>2</sup>	8,409
including oil-contaminated land, ha	151	166	97
Decommissioning of sludge pits by own efforts, pits	136	195	200

<sup>2</sup> The indicator includes remediation of disturbed and contaminated lands across Oil and Gas Production in Russia (3,478 hectares) and 50 hectares of contaminated land subject to remediation works requested by the Kam-barskaya Bulk Plant (OOO LUKOIL-Trans).

**Biodiversity conservation**

**Action plan to preserve biodiversity**

In 2015, PJSC LUKOIL approved its biodiversity conservation program<sup>3</sup>, establishing the legal framework, obligations, principles, and approaches to biodiversity conservation, and outlining the requirements for measures developed for the Company's offshore facilities in the Russian Arctic region. The document sets out LUKOIL's obligations:

**DMA**

- strive to avoid operations within the habitats of valuable and protected flora and fauna, in sensitive environmental areas, during the growing season of plants, at the times of reproduction and migration of wildlife or to minimize exposure within specific areas or during specific seasons, if it cannot be avoided altogether;
- strive to prevent the creation of permanent and insurmountable obstacles to the migration of wild animals in the form of linear structures;
- take measures to avoid or minimize the impact of Company personnel on wildlife and enforce such measures.

Based on this program, entities are developing action plans for the conservation of biodiversity. In 2016, the Company launched an expedition to study the Atlantic walrus in the south-eastern Barents Sea in the areas exposed to the operations of OOO Varandey Terminal (jointly with WWF Russia and Marine Mammal Council). The work involved

using satellite transmitters and photographic recorders to observe the migratory routes of walruses and their patterns of breeding ground formation, as well as testing tissue samples for toxins. The work will continue in 2017.

Within the framework of the Environmental Safety Program of the LUKOIL Group entities for 2014–2018, measures aimed at biodiversity conservation have been implemented, with a total worth of 50 billion rubles. The financing of compensatory works on reproduction of fish resources in 2015–2016 amounted to more than 170 million rubles. 68 million young of valuable fish were raised and released into rivers. **G4-EN12, G4-EN-11, G4-EN14**

The Company's subsidiaries outside of Russia are also engaged in biodiversity conservation.

In Uzbekistan, OOO LUKOIL Uzbekistan Operating Company developed a biodiversity conservation action plan for Khauzak–Shady, which became one of the first plans for the management of protected natural areas in the country. The document was approved and endorsed by the Bird Protection Society of Uzbekistan. The subsidiary's experience may be shared across the LUKOIL Group, when introducing the ISO 14001:2015 requirements.

**DMA, G4-EN12,  
G4-EN-11, G4-EN14**



**68**

million of fish juveniles

of valuable species were bred and released into the rivers in 2015–2016



<sup>3</sup> PJSC LUKOIL Order No.136 of July 23, 2015.



G4-EN11, G4-EN12

Areas of operations	Biodiversity conservation program	2014–2018 Environmental Safety Program	Financing, million RUB	
			2014–2018 planned	2014–2016 actual
<b>Marine biosystems</b>				
Measures to prevent adverse impact	Impact assessment, action plan development Rules for the personnel An Atlantic walrus monitoring program was launched jointly with the WWF	Upgrading of fish protection framework as part of revamping of the water intake structures and hydroelectric installations of hydro power plants	150	0
Redress of harm to biological resources		Restoration of aquatic biological resources	300	300
Sediment control in minor rivers, including locations of underwater pipeline crossings	Environmental Protection Events			
<b>Onshore ecosystems</b>				
Remediation of disturbed and oil-contaminated land		Emergency prevention (also by replacing pipelines, holding emergency prevention and response exercises)	42,300	31,600 <sup>1</sup>
		Remediation of disturbed and contaminated land	3,900	3,800
<b>All ecosystems</b>				
Environmental monitoring of the natural environments	IEC and local monitoring: open waters, benthal deposits, soils, fauna	All activities	2,800	1,500

<sup>1</sup> The amount includes the cost of offshore emergency prevention and response exercises.

**Industrial environmental control system operating at offshore fields DMA**



**DMA, G4-EN11, G4-EN12**

LUKOIL has an extensive track record of offshore field development, and the operation of its offshore terminal, three production rigs and submerged pipelines has been accident-free.

LUKOIL IS THE FIRST RUSSIAN COMPANY TO COMMENCE COMMERCIAL PRODUCTION OF HYDROCARBONS AT ITS BALTIC OFFSHORE FIELDS.

The company uses advanced technologies to ensure environmental safety, investing significant funds in this direction. The industrial environmental control system that is in place at its offshore facilities helps

assess their environmental impact in a timely manner. The innovation of IEC lies in the comprehensive observation of all natural and natural/man-made environments at all stages of the life cycle of the facility, including the pre-construction stage. In addition to observations, experimental work is also carried out.

THE COMPANY HAS BEEN ABIDING BY THE "ZERO DISCHARGE" PRINCIPLE FROM THE VERY BEGINNING OF PRODUCTION AT ITS OFFSHORE FIELDS. THESE PRACTICES RECEIVED PRAISE FROM THE INTERNATIONAL COMMUNITY.

The URL (<http://www.lukoil.com/Responsibility/SafetyAndEnvironment/Ecology/EnvironmentalMonitoring>) features annual IEC reports for Kravtsovskoe field (Baltic) and Korchagin (Caspian) field, and the Varandey Terminal (Barents Sea).

DRILLING OF WELLS IN THE NORTHERN CASPIAN IS CARRIED OUT USING AN OIL-FREE MUD AND, AS A RESULT, EXCESS MUD AND SLUDGE DO NOT CONTAIN PETROLEUM HYDROCARBONS.

ITS OFFSHORE FACILITIES AND SITES ARE SUBJECT TO CONTINUOUS SATELLITE MONITORING.

The independent research contractors who were involved include NIC Yugraneftgaz and the Shirshov Institute of Oceanology. A total of eight research organizations and higher education institutions contribute to the monitoring of the Baltic Sea.

LUKOIL COMPLETED THE CONSTRUCTION OF THE FIRST EVER AND NORTHERNMOST RUSSIAN OFFSHORE OIL TERMINAL, VARANDEY, ON THE BARENTS SHORE.

See also the history of the Company's offshore operations – 2016 Annual Report, p. 10–11.

**Health and Safety**

The key areas of LUKOIL Group's health and safety focus include:

- Improve health, safety, and fire safety management practices, as well as the regulatory and organizational framework;
- Ensure emergency prevention and response;
- Provide training to personnel and hold drills;
- Make sure that the goals are accomplished using cutting-edge scientific and technical solutions.

To keep the LUKOIL Group entities prepared for potential emergencies, in 2015 and 2016, the Company's facilities held 445 exercises, of which over 280 exercises dealt with response to simulated oil spills, and over 27,000 facility-specific drills, engaging over 110,000 personnel. The biggest exercises included:

- The comprehensive exercise "Kaliningrad-2015" trained both its own and contract personnel in the area adjacent to the offshore ice-resistant platform;

Offshore field development projects factor in environmental safety measures and compensation of damages caused to the environment, at 15% of the total capital investment.



**Annual IEC reports:**

for Kravtsovskoe field (Baltic) and Korchagin (Caspian) field, and the Varandey Terminal (Barents Sea)

**Partner Projects**

For many years PJSC LUKOIL, represented by its President and CEO V.Yu. Alekperov, has been sitting on the Board of Trustees of the Russian Geographical Society. During the course of this cooperation, the partner entity completed numerous research and awareness-building projects, including:

- research of the coastal waters and coastline of the northern Kola Bay and mapping of the areas sensitive to oil spills across the entire Bay;
- creation of the "Geo-Russia" website;
- "The Rivers and Mountains of the Urals Region: the experience of creating descriptive and geographical map of the region";
- "Preservation of the Amur Tiger in Central Sikhote-Alin Nature Reserve".

- In June 2016, an international comprehensive exercise (featuring Finnish rescue boats) responding to a simulated oil spill in the offshore area of AO RPK-Vysotsk LUKOIL-II (OOO LUKOIL-Trans);
- The comprehensive exercises "Caspian-2015" and "Caspian-2016", focusing on the elimination of gas and oil shows at the Korchagin field and a response to an "emergency spill" at Filanovsky.

Most of the focus was on quick-response training in case of potential emergencies at offshore facilities with a high environmental hazard.

Training of the personnel operating at the LUKOIL Group's offshore oil and gas facilities is the responsibility of LUKOIL's specialized Corporate Training Center situated in the Astrakhan Region. The occupational and personal safety skills required in the course of offshore operations are developed using one-of-a-kind simulators under realistic training conditions.

## Emergency prevention and response

DMA,  
CPI 2.3,  
G4-EN24

### Management approach DMA

The health and safety system places a special focus on oil spill prevention and quick-response to spills occurring during the course of the Company's operations. The health and safety program features annual activities that are designed to enhance the reliability of pipeline systems and to reduce the number of accidents affecting the environment. The accidents occurring over the reporting period include 28 accidents in 2016, and 29 in 2015. The major causes of the accidents are for the most part pipeline failures brought about by corrosion and illegal tie-ins. The Company has adopted procedures to effectively respond to incidents, and investigates each specific case to improve its HSE performance.

### CPI 2.3

In 2016<sup>2</sup>, accidents affecting the environment resulted in 0.26 thousand tons<sup>3</sup> of spilled oil, over 20% of which resulted from an unauthorized tie-in into the Company's West Siberian pipeline, while the rest was due to a pipeline rupture caused by a pressure surge in the Komi Republic. Most spills were on soil. The initial consequences of the spills were dealt with as soon as possible and, at the present time, biological remediation (planting of grass) is entering its final phase.

### G4-EN24

In 2016, the specific number of pipeline failures<sup>4</sup> across Russian entities of the LUKOIL Group fell by 10%, as compared to 2015, as a result of major overhauls, replacement, upgrading, and inhibitor protection of pipelines. To reduce the number of failures, between 2015 and 2016, the Company replaced 2,133 km of pipeline, with almost a quarter having anticorrosive coating.

BETWEEN 2015 AND 2016, THE COMPANY REPLACED 2,133 KM OF PIPELINE, WITH ALMOST A QUARTER HAVING ANTICORROSIVE COATING.

LUKOIL is taking measures to increase the reliability of its pipeline systems and reduce the rate of accidents, and is investigating the use of state-of-the-art technologies that may be used to this end. Every year, entities within the "Oil and Gas Production in Russia" business sector, carry out targeted measures to enhance the reliability of pipeline transportation. Every oil and gas producing company within the LUKOIL Group implements its annual targeted program, with the enforcement of such programs and review of their efficiency being the responsibility of PJSC LUKOIL.

The key pipeline system reliability measures include:

- replacement of pipelines that are older than 20 years;
- diagnostics and overhaul of pipelines and the application of inhibitor protection coating;
- introduction of seamless pipes or those made of new steel grades;
- more stringent in-process control of the safety of pipeline operations;
- control of process operations conducted by contractors at well sites.

"Worn out" pipelines are replaced with non-metal pipes, steel pipes with a protective coating, or high durability pipes made from modified steel grades; As of now, there are roughly 1,200 km of fiberglass and about 2,000 km of polythene pipes in operation.

The Company set up the network team, "Improving the Reliability of Field Pipes and Production Tubing", whose primary goal is to search for and introduce new types of equipment and technologies. The specialists on the team include oil production department (service) heads and experts. In 2015–2016, team members visited a number of seamless pipe manufacturers both in and outside of Russia to review their products.

The introduction of new pipeline products is a promising way of enhancing the reliability of pipelines. Following tests of new generation 05KHGB steel pipes, independent experts confirmed a 1.5-2 times reliability improvement without additional anticorrosive measures. OOO LUKOIL-Komi will carry out industrial testing of a 4.4 km pipeline made from new materials.



The 2017 pipeline reliability enhancement plans for the Komi Republic include:

- bring the length of protected pipelines up to 2,282 km (increasing the overall pipeline length by 196.5 km) or 30% of the total pipeline system length;
- increase the length of pipeline replacements to 309.8 km (9.4% of the oil pipeline length);
- expand the scope of technical and in-line inspections to 1,882.3 km of pipelines.

### The Reliability Increase of Pipelines in the Republic of Komi

When the asset in the Komi Republic was acquired in 1999, LUKOIL assumed the responsibility to improve the environmental situation that existed as a result of operation of the asset by its previous owner.

In 1999, the pipeline stock was about 3,000 km, with most of it having a high percentage of wear. In the last 16 years, LUKOIL has replaced over 2,500 km of pipeline (i.e. over 80%).

The investments brought the percentage of pipeline older than 15 years down from 63% in 2000 to 37% in 2016, and the failure rate of field pipelines has been halved. In recent years, there has been a substantial growth in pipeline replacement, i.e. from 47 km (1.3% of the total length) in 1997 to 240 km (4.2%) in 2016. The company has the Group's highest percentage of protected pipelines relative to total pipeline length: in 2016, this percentage was 31% in the Komi Republic, compared to 9.9% companywide.

<sup>1</sup>A pipeline failure is an operational disruption caused by a full or partial shutdown of a pipeline due to loss of containment of the pipeline itself or its shut-off or control valves, or due to pipeline plugging.

<sup>2</sup>No major spills occurred in 2015.

<sup>3</sup>The spills were on soil.

<sup>4</sup>The number of pipeline failures is calculated as the number of pipeline failures divided by the overall length of pipeline, per annum.



PERSONNEL



62 Management Approach

63 The Company's position with regards to employment entitlement and human rights

64 Guarantees of employee labor and human rights

66 Health and On-Site Safety

Principles

- 1 observance of fundamental labor principles and rights
- 2 compliance with the labor law of the Russian Federation or the countries where the company is present
- 3 creation of favorable conditions for the social protection of employees and workforce stability

70 Personnel Policy

73 Incentives and remuneration

80 Training

82 Youth Policy

2015–2016 results

- A project to modernize the corporate distance learning system resulted in many-fold increase in the number of courses completed.
- Pilot projects aimed at the launch of a new personnel health management system have been implemented.
- Representatives of the Company took part in the development of professional standards in the field of "Extraction, Processing and Transportation of Oil and Gas."
- The implementation of professional standards in accordance with Federal Law No. FZ-122 of May 2, 2015 has been initiated.
- PJSC LUKOIL introduced a working group to create and develop a Corporate Professional Competences System and a Qualification Assessment Center.



Ratings and Awards

**An Award** from the 2015 e-course competition set up by the e-Learning center company (as part of the "Art of Course Development" e-learning conference)

**An Award** for the "Contribution to the Development of the National Qualification System in the Oil and Gas Industry" from the Ministry of Energy of Russia

Plans for the Future

- Implement measures set out in the LUKOIL Group's 2017–2019 Program of Health and Safety, Better Working Environment, Emergency Prevention and Response.
- Roll out the corporate integrated ICS "Personnel" software system in LUKOIL Group entities.
- Advance the "SAP ERP HR Based Personnel Assessment and Development System" project.
- Organize the activities of the Qualification Assessment Center and develop the methodological foundation of independent qualification assessment. Obtain the authority to assess qualifications at the Oil and Gas Industry Professional Qualification Council.
- Implement mobile learning techniques and increase the capacity of the current remote learning courses.
- Develop a corporate knowledge management policy.





## Management Approach

LUKOIL Group entities employ representatives of various countries, ethnic backgrounds and cultures. The high quality of human capital is an important growth factor for the development of the Company and the regions in which it operates. A balanced HR

policy, high HSE standards, adequate social support and investment in the development of the knowledge and skills of employees are the prerequisites for both current and future LUKOIL achievements.

### 2030 Sustainable development goals and Company's activities

**3 GOOD HEALTH AND WELL-BEING**

**Good health and well-being**

**Execution**

- Collective agreements
- Program of Health and Safety, Better Working Environment, Emergency Prevention and Response
- Social Programs: "Healthcare"

**Key strategic points (2024)**

- Study and apply the best international personnel management practices in the oil industry
- Ensure safe working conditions, reduce accident and injury rate



**8 DECENT WORK AND ECONOMIC GROWTH**

**Good jobs and economic growth**

**Execution**

- Collective agreements
- Social Programs: "Housing", "Pension Support"

**Key strategic points (2024)**

- Ensuring qualified personnel sufficiency
- Incentives to reach high goals

**5 GENDER EQUALITY**

**Gender Equality**

**Execution**

- Social benefits and guarantees for women

**Key strategic points (2024)**

- Ensuring qualified personnel sufficiency
- Incentives to reach high goals



**Implementation: basic documents**

- The Global Agreement between the IndustriALL Global Union, the Russian Oil, Gas, and Construction Workers' Union, and OAO LUKOIL's IATUO.
- Social Code.
- Personnel Management Policy.
- Functional Strategy of Personnel Management.
- Fundamentals of Housing Policy.
- Youth Policy.
- Agreement with the International Association of Trade Unions.



## The Company's position with regards to employment entitlement and human rights

G4-15, DMA, CPI 1.1

The Company's position with regards to employment entitlement and human rights is expressed in the Global Agreement between the IndustriALL Global Union and LUKOIL's IATUO, the Russian Oil, Gas, and Construction Workers' Union and OAO LUKOIL (hereinafter – the Global Agreement). The Content of the Global Agreement confirms LUKOIL's commitment to the basic principles of labor relations and environment protection stipulated in the UN and International Labor Organization (ILO) conventions. **G4-15**

The obligations assumed under the General Agreement extend to all areas of activity and subsidiaries directly controlled by the Company, and also require the notification of the organizations with which it interacts (contractors, license holders and major suppliers). **DMA, CPI 1.1**

Ensuring a safe, life and health friendly working environment, cultivating a responsible attitude to occupational safety at all management levels, and ensuring the proper training of employees in this area are of paramount importance to the Company.

LUKOIL obligations are also concerned with a responsible attitude to the restructuring of entities, fair wages and benefits at the level of industry norms in the countries of its presence, providing opportunities for professional growth (especially to young employees), recognition of the value of family life and the rights of women.

These obligations have become the basis for the Social Code<sup>1</sup>, the Personnel Management Policy, the Functional Personnel Management Strategy as well as the Agreement between the employer and PJSC LUKOIL's professional association for 2015–2017 and have been implemented through collective agreements signed by subsidiaries.

The Company promotes cooperation with international organizations, primarily with the International Labor Organization, to further improve the activities related to personnel management and compliance with the best international practices in the oil industry.



**Principles stipulated in the Global Agreement:**

*"2.1. LUKOIL recognizes basic human rights and, in its activities, is guided by the provisions of the UN Universal Declaration of Human Rights.*

*2.2. LUKOIL greatly appreciates the additional opportunities derived from the rich national and cultural diversity of its employees and the various populations of the regions in which it operates. This is reflected in its activities, which are built upon the following principles:*

*2.2.1. Respect and support of the traditions of tolerance and benevolence and the preservation of national and cultural traditions, values, arts and crafts in the areas of activity of the entities of the LUKOIL Group;*

*2.2.2. Respect for the religious beliefs of employees and local populations".*

**The Global Agreement also stipulates that the Company has an obligation to respect the rights of trade unions, including the rights enshrined in the core ILO conventions:**

*"3.1.1. The right of every employee to be represented by a trade union of their choice and the basic trade union rights enshrined in ILO Conventions Nos. 87 and 98 concerning freedom of association and the right to organize workers in trade unions, as well as the right to collective bargaining. Thus, LUKOIL agrees not to oppose efforts aimed at involving the employees of LUKOIL Group entities in trade unions.*

*3.1.2. Ruling out any forms of forced or compulsory labor banned by ILO Conventions No.29 and 105 or other documents.*

*3.1.3. Actual ruling out of child labor banned by ILO Conventions No.138 and 182.*

*3.1.4. Encouraging and ensuring equal opportunities and treatment of employees in the employment sector including equal remuneration for men and women for work of equal value as well as non-discrimination in the labor and employment sector as per the requirements of ILO Conventions No.100 and 111 respectively".*

<sup>1</sup> The document is available at the Company's website (<http://www.lukoil.com/Responsibility/SocialPartnership/SocialCodeofPJSCLUKIL>).



## Guarantees of employee labor and human rights

The Company grants its employees the right to freedom of association (trade unions) and collective bargaining. The interaction of PJSC LUKOIL with trade

unions is based on the principles of social partnership and is formalized in agreements.

### Interaction with trade unions

The key social partner of the Company is the International Association of Trade Union Organizations of PJSC LUKOIL (IATUO) uniting the trade union organizations operating in the LUKOIL Group entities located in Russia, Azerbaijan, Belarus, Bulgaria, Moldova, Romania and Serbia. **GC-3 DMA**

The number of trade union members in foreign entities in 2016 was 12,363 employees<sup>1</sup>. The number of IATUO members among foreign trade union organizations is growing. In 2015, a cooperation agreement was

signed with the Association of LUKOIL trade union organizations in Romania and IOOO LUKOIL-Belarus established a trade union organization that joined IATUO.

The representatives of foreign trade union organizations attend meetings of the IATUO Council regularly as associated members and discuss practical issues, including those related to the observance and protection of the rights and interests of employees based on respective local legislation.

### Agreement with IATUO

The Agreement between the employer and LUKOIL's Association of Trade Unions (hereinafter referred to as the Agreement with IATUO) for 2015–2017 takes account of the provisions of the applicable labor law, the provisions of the 2014–2016 Master Agreement between all-Russian trade union associations, all-Russian associations of employers and the Russian Government, the industry-wide agreement of organizations operating in the oil and gas industry, construction of oil and gas infrastructure in the Russian Federation. The Agreement with IATUO provides for a number of additional guarantees and benefits for employees, compared with those outlined in the legislation and the documents mentioned above.

The Agreement with IATUO outlines the obligations mutually assumed by the Company and its employees with regard to social or employment matters, basic rules applied when dealing with labor relations matters, working and leisure hours, remuneration, health and safety, social benefits and guarantees, youth and veterans activities in view of the peculiarities of the policies and local regulations adopted by PJSC LUKOIL. **G4-LA8**

The Agreement serves as a milestone for LUKOIL Group entities when signing collective agreements. The obligations formalized in such agreements are consistently fulfilled, which is demonstrated by the results of collective bargaining campaigns<sup>2</sup>.

During the reporting period, the subsidiaries of the Company concluded 47 collective agreements in Russia, 11 in foreign entities and two agreements (at OOO Karpatneftekhim and ZAO LUKOR) which were recognized for the last time in 2016 due to the sale of assets.

In 2016, 96.9% of employees were covered by collective agreements. **G4-11 GC-3 CPI 3.1.4**

Annual competitions held by the Russian Oil and Gas Industry Construction Trade Union demonstrate that the collective agreements made by the LUKOIL Group are among the best in the industry, confirming that the Company's employees have an adequate level of social guarantees.

Priority issues are addressed at the meetings of the IATUO Council and at meetings between trade unions and the management, together with the employees. IATUO and trade union committees consistently monitor the social and economic situation in LUKOIL entities and in the regions of presence. The results of this monitoring are also used by PJSC LUKOIL.

In foreign LUKOIL Group entities with active IATUO organizations, in 2015–2016, agreements formalize the following obligations:

- labor management contributing to high productivity and quality work of employees in accordance with their specialization and qualification;
- provision of economic rights, social benefits and guarantees established by the country's legislation and collective agreements;
- ensuring occupational safety and employee health protection;
- offering wages at least at the level of the current norms applied in the country;

- having a socially responsible approach to the restructuring of entities; if there is a need to cut the number of employees, preemptive actions are taken to reduce social tension among the personnel;
- a healthy moral and psychological climate and corporate solidarity, a creative approach to work, performance efficiency improvement, promotion of amateur creativity among employees and their family members, support of popular sports or other athletic activities by the employees or their families.



*"The model of social partnership built in LUKOIL seems, to me, to be very effective: it combines the best traditions with the realities of modern life, and is in constant development. It is no coincidence that many experts, both in Russia and abroad, consider it unique".*

**V.Yu. Alekperov,**  
President and CEO of PJSC LUKOIL

### Mechanisms of employee appeals

Employees are given an opportunity to address the employer directly or through independent trade union channels. **DMA, G4-LA16**

The employees, even if they are not trade union members, can address, either in writing or verbally, their trade union organization or IATUO, for example, through the IATUO website. Any concerns an employee may have are investigated, which may include the participation of representatives of the employer. The employee is always notified of the progress of the investigation and its resolution. The most complex issues identified by employees are considered by a working group or a committee.

Any employee of the Company (including employees of foreign assets) may also communicate with the Company's management through regular

mail, a helpline, a feedback form or via their personal account on the corporate portal. Analysis of the requests received through these various channels makes it possible to take a quick managerial decision with regard to the issues raised.

Complaints received from employees or labor organizations which are related to the activities of the Company or its employees are subject to mandatory investigation and review in specialized divisions. Following the investigation and review process, a judgement is reached regarding the veracity of the complaint. Should violations of regulations or corporate policy be discovered, the head of the LUKOIL Group entity where the violation was committed receives recommendations on measures to eliminate the violations and provide feedback to the complainants.



**DMA, G4-LA16**



**Any concern** submitted by an employee to IATUO is investigated

**GC-3 DMA,  
G4-LA8,  
G4-11 GC-3  
CPI 3.1.4**



#### Information

on compliance with collective agreements is published at the IATUO website

<sup>1</sup> As for the foreign assets, collective agreements were signed with ZAO "LUKOIL-Azerbaijan", "LUKOIL-Moldova" S.R.L., "LUKOIL Neftokhim Burgas AD, "LUKOIL Energia and Gas Bulgaria" EOOD, "LUKOIL-BULGARIA" EOOD, "LUKOIL Aviation Bulgaria" EOOD, PETROTEL-LUKOIL S.A., S.C. LUKOIL-ROMANIA S.R.L., LUKOIL SERBIA AD Belgrade S.C., "LUKOIL ENERGY & GAS ROMANIA" S.R.L. and IOOO "LUKOIL-Belarus".

<sup>2</sup> The information on compliance with collective agreements is published at the IATUO website (<http://mopo.lukoil.ru/572/590/index.html>).

## Health and On-Site Safety

**DMA, CPI 3.1.9**

The priority of the personnel management policy of PJSC LUKOIL is the creation of decent and safe working conditions, the introduction of a safe work culture, and the protection of the lives and health

of employees of LUKOIL Group entities. The Company follows the national statutory occupational safety requirements.

### Management approach DMA

The occupational safety system is part of the corporate integrated Health, Safety and Environment Management System<sup>1</sup>. The strategic goals and obligations are formalized in PJSC LUKOIL's HSE Policy in the 21st Century.

The Company has assumed the obligation to implement all available and practical measures to prevent injuries, occupational illnesses, accidents and to mitigate their consequences. The Policy applies to all LUKOIL Group entities, including foreign ones.



General information on HSE Management

### The Program and Corporate Standards



During the reporting period, under the 2011–2015 Program of Health and Safety, Better Working Environment, Emergency Prevention and Response, measures were implemented with the overall financing of around 40 billion RUB. In 2015 10,262 million RUB were allocated for the Program's implementation. In 2016, the expenses for HSE events amounted to 9,288 million RUB. **CPI 3.1.9**

Since 2017, the LUKOIL Group's 2017–2019 Program of Health and Safety, Better Working Environment, Emergency Prevention and Response has been applied<sup>2</sup>.

The comprehensive key performance indicator "Ensuring the Required Level of Occupational Safety, Health and Environmental Protection in LUKOIL Group Entities" is applied at the Corporate Center and subsidiaries both in Russia and abroad<sup>3</sup>.

<sup>1</sup> For general information on the management system see Section "Environmental Protection" as well as the website <http://www.lukoil.com/Responsibility/SafetyAndEnvironment/HSEManagementSystem>.

<sup>2</sup> Approved on January 13, 2017.

<sup>3</sup> For more information about the indicator see Section "Strategy and Management".

### Cost Structure for Occupational, Industrial and Fire Safety in Russia, million RUB CPI 3.1.9

Program Section	Implementation Costs	
	2015	2016 <sup>4</sup>
Make sure that the challenges are resolved using cutting-edge scientific and technical solutions	6.08	13.2
Develop occupational safety awareness among the employees of LUKOIL Group entities, educate, train and upgrade the employees' HSE skills	335.6	329.8
Bring the workplaces in LUKOIL Group entities in line with regulatory requirements	312.2	359.8
Provide personnel with personal protective equipment and appropriate sanitary and disease prevention conditions	1,566.4	1,696.4
Arrange a healthcare scheme for the employees of LUKOIL Group entities in compliance with national and corporate standards	650.9	742.8
Improve industrial and fire safety management practices, regulatory and organizational support	422.5	442.5
Ensure emergency prevention and response	4,021.8	4,315.6
Bring the facilities of LUKOIL Group entities in line with the regulatory industrial, fire safety and health requirements	2,946.5	1,388.1
<b>Total, the LUKOIL Group entities</b>	<b>10,262.0</b>	<b>9,288.2</b>

<sup>4</sup> The 2016 total amount includes expenses of OOO LUKOIL Uzbekistan Operating Company LLC, and LUKOIL MID-EAST Ltd.

### Monitoring and Control

Health and safety (hereinafter – HS) monitoring is conducted by trade union health and safety officers, managers and specialists in subsidiaries, technical labor inspectors and HS unit employees.

IATUO is an equal partner in policy implementation. Together with the top management of the Company and its subsidiaries, the trade union organization exercises administrative and public oversight of personnel health and ensures safe working conditions. Legal and technical IATUO employment inspectorates, including public (freelance) legal inspectors of employment matters representing trade

union organizations, as well as over 2,600 trade union health and safety officers, monitor the observance of labor legislation, the working conditions of employees, ensure their legal protection and create a collegial work culture<sup>5</sup>. **G4-LA5**

The trade union association runs an annual contest for the "Best Health and Safety Officer" Award. During the reporting period, 125 people at LUKOIL received this award. Four of them were named best HS officers of the Russian Oil, Gas, and Construction Workers' Trade Union.

**CPI 3.1.9, G4-LA5**



The structure of the Technical Labor Inspectorate

is shown at the IATUO website

<sup>5</sup> The structure of the Technical Labor Inspectorate is shown at the IATUO website (<http://mopo.lukoil.ru/575/605/index.html>).



## Dedicated Working Environment Assessment

As of January 1, 2017, LUKOIL Group entities had 46,142 workplaces, employing 86,164 people, including 35,973 women.

In accordance with legislation<sup>1</sup>, Russian LUKOIL Group entities conduct a dedicated working environment assessment to identify hazardous and/or dangerous occupational factors and assess their impact on employees.

Dedicated working environment assessment covers 79.2% of workplaces<sup>2</sup> with almost 80% of employees. 17.7% percent of workplaces are covered by workplace certification results from 2012–2013. The remaining 3.1% are newly introduced workplaces and those where the working environment has changed.

The share of employees of Russian entities of the LUKOIL Group employed in workplaces with harmful working conditions has been steadily declining over the past few years and at the end of 2016 amounted to 34.3% of the total number of employees whose workplaces have actual results of a special assessment of working conditions or workplace certification.

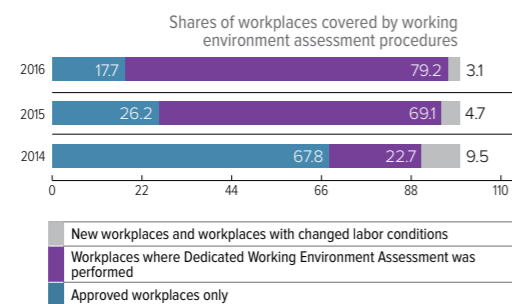
In 2016, the Company improved the working environment for 2,917 employees, fully eliminating workplaces with the maximum hazard class working environment, which were occupied by 231 employees, in 2015. There are no workplaces with hazardous working environment (Class 4) in the Company.



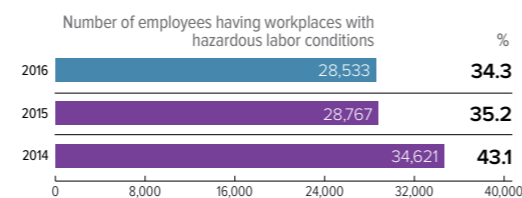
### In the Company

there are no workplaces with hazardous working environment (Class 4)

### Workplaces in the Russian LUKOIL Group entities covered by the dedicated working environment assessment as of the year end, %



### Number of employees having workplaces with hazardous labor conditions



## Injury Rates

The injury rates in Russian LUKOIL Group entities are recorded in accordance with STO LUKOIL 1.6.13-2016 "Health, Safety and Environment Management System. Registration and analysis of accidents, occupational illnesses and microtraumas".

Injury rates in contractor (service) organizations have been recorded since 2012 in accordance with corporate standard STO LUKOIL 1.6.5 "Health,

Safety and Environment Management System. Requirements to contractor organizations". (The current version is of 2016). The standard requirements apply to contractor and service organizations, including subcontractors, working at the facilities of LUKOIL Group entities.

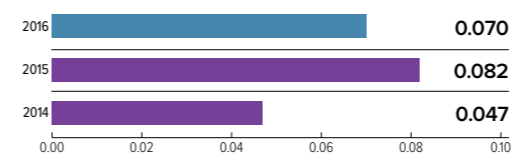
## LUKOIL Group Injury Rate Indicators G4-LA6

G4-LA6

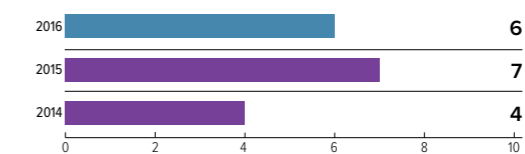
Indicators	2014	2015	2016
<b>FOR THE RUSSIAN LUKOIL GROUP ENTITIES</b>			
<b>Number of occupational accidents, total</b>	<b>11</b>	<b>24</b>	<b>18</b>
in road traffic accidents, persons	2	4	3
<b>Accident frequency rate (number of accidents per 1,000 employees)</b>	<b>0.13</b>	<b>0.28</b>	<b>0.21</b>
<b>Number of occupational casualties, total, persons</b>	<b>21</b>	<b>30</b>	<b>27</b>
fatalities, persons	3	7	4
in road traffic accidents, persons	2	4	12
<b>Number of accidents in contractor organizations at the facilities of the Russian LUKOIL Group entities</b>	<b>22</b>	<b>24</b>	<b>22</b>
in road traffic accidents	1	2	4
<b>Number of casualties in contractor organizations at the facilities of the Russian LUKOIL Group entities, total, persons</b>	<b>24</b>	<b>29</b>	<b>28</b>
fatalities, persons	4	7	8
in road traffic accidents, persons	1	2	6
<b>FOR FOREIGN LUKOIL GROUP ENTITIES</b>			
<b>Number of occupational accidents, total</b>	<b>9</b>	<b>8</b>	<b>1</b>
in road traffic accidents, persons	0	1	0
<b>Accident frequency rate (number of accidents per 1,000 employees)</b>	<b>0.38</b>	<b>0.38</b>	<b>0.05</b>
<b>Number of occupational casualties, total, persons</b>	<b>9</b>	<b>8</b>	<b>1</b>
fatalities, persons	1	0	0
in road traffic accidents, persons	0	3	0
<b>Number of accidents in contractor organizations at the facilities of the foreign LUKOIL Group entities</b>	<b>4</b>	<b>4</b>	<b>4</b>
in road traffic accidents, persons	0	0	0
<b>Number of accident casualties in contractor organizations at the facilities of the LUKOIL Group entities, total, persons</b>	<b>7</b>	<b>5</b>	<b>4</b>
fatalities, persons	4	2	0
in road traffic accidents, persons	0	0	0

## Occupational disease rate (number of registered cases per 1,000 employees) in Russia

### Occupational disease rate



### Number of cases



<sup>1</sup> Federal law No. 426-FZ of December 28, 2013 "On Dedicated Working Environment Assessment".

<sup>2</sup> As of December 2016.

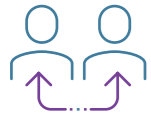
## Personnel Policy



DMA

### Management Approach DMA

The Company has unified personnel policy principles that apply to all its subsidiaries:



#### Equal opportunities

for all candidates that meet the Company's skill requirements



#### Priority to local residents

in hiring



#### Maintaining teams

and the Company's core, highly skilled personnel



#### Responsible

restructuring



#### Goal-oriented

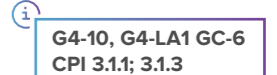
corporate culture

THE COMPANY'S PERSONNEL REQUIREMENTS ARE ALIGNED WITH ITS STRATEGIC GOALS AND ARE SUBJECT TO ANNUAL REVIEWS, WITH THE GOAL OF MAKING SURE ALL LUKOIL GROUP ENTITIES HAVE THE STAFF THEY REQUIRED.

A system is being developed to provide key personnel to the LUKOIL Group's assets and projects, with the aim of identifying current and future needs and plan professional development of employees across the key competencies. Key recruitment activities include:

- partnership programs with schools and universities; setting up dedicated training departments and educational centers in the Russian regions where LUKOIL is present;
- succession pool and further training for executives;
- training programs for various categories of staff;
- recruiting professionals in the external market.

## Company personnel: structure and description



LUKOIL Group entities have more than 100,000 employees, with 80% employed by the Russian entities.

Number and structure of employees as of December 31 of each year for LUKOIL Group, persons G4-10 G4-LA1 GC-6 CPI 3.1.1; 3.1.3

	2015		2016	
	Russia	Foreign countries	Russia	Foreign countries
a) Number of employees	89,167	22,164	90,112	19,989
b) by gender				
male	50,413	14,746	51,046	13,859
female	38,754	7,418	39,066	6,130
c) by category				
managers	11,637	2,074	11,535	1,787
specialists	24,672	6,297	24,827	5,279
employees	52,188	12,481	53,153	11,471
other	670	1,312	597	1,452
d) by age				
under 35	21,479 <sup>1</sup>	4,796 <sup>1</sup>	36,361	7,426
36–40	28,093 <sup>2</sup>	7,672 <sup>2</sup>	14,039	3,768
41–50	22,459	6,271	22,944	5,783
51 and older	17,136	3,425	16,768	3,012
e) by education				
university degree	45,244	10,257	46,845	9,299
including:				
PhD (candidate of science degree)	559	109	559	103
post-doctoral degree	27	30	21	28
post-secondary vocational school degree	18,556	7,733	18,567	6,686
secondary vocational school degree	25,367	4,174	24,700	4,004
f) newly recruited employees	15,224	3,640	16,909	3,397
including those under the age of 35 (inclusive)	7,853 <sup>1</sup>	1,428 <sup>1</sup>	10,785	2,094
g) employees made redundant	15,432	6,418	15,945	5,606
including those under the age of 35 (inclusive)	5,408 <sup>1</sup>	1,316 <sup>1</sup>	7,587	1,714

<sup>1</sup> Under the age of 30 (inclusive).

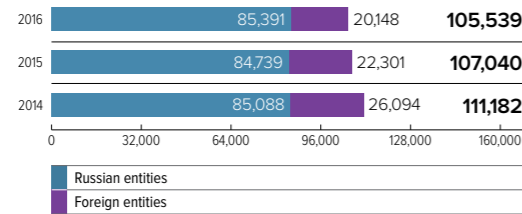
<sup>2</sup> 31–40 years old. Data for Russia shown for major regions (six federal districts).



**G4-LA1 GC  
CPI 3.1.2**

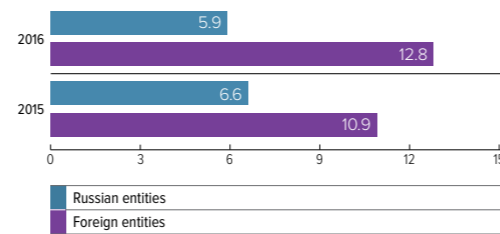
In 2016, the average number of employees of LUKOIL Group declined by 1,501 people compared to 2015. At the same time, the number of people employed by foreign entities went down by 2,153 people

**Average number of employees across LUKOIL Group, persons**



as a result of asset sales, and Russian entities hired 652 new people due to commissioning of new facilities.

**Employee turnover in 2015 and 2016, % G4-LA1 GC CPI 3.1.2**



**Employees on rotational schedules**

The nature of the Company's operations, including exploration and mining of hydrocarbons, requires its employees to work in rotations. Rotations are in place for LUKOIL Group's remote fields and continuous production facilities.

Rotating employees are transported by the Company to the work site and back (to the base station/town) using economically justified means of transport under agreements with respective transportation companies.

When choosing personnel for rotations, the Company prioritizes local residents provided they have the necessary competencies. All candidates undergo psychological testing, and there are sets of methodologies for each category of staff (employees, specialists, managers).

Rotating employees are offered comfortable conditions while at production facilities: they reside in dedicated rotational camps or dormitories with amenities at the employer's expense.

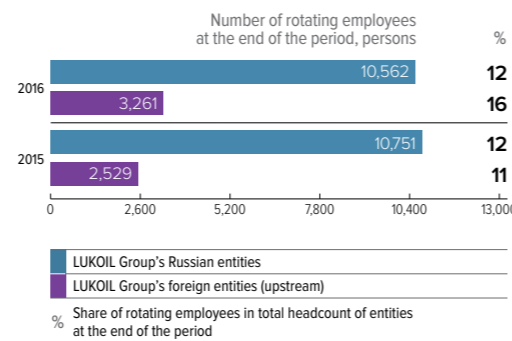


**When choosing personnel for rotations**

The Company prioritizes local residents provided they have the necessary competencies



**Information on the number of rotating full-time employees across LUKOIL Group**



**Incentives and remuneration**

**Management approach**

The corporate remuneration system aims to provide competitive salaries and is based on the equal payment for equal work concept. **DMA**

system aimed at making business processes more transparent to the employees. In 2016, as part of the project titled "Development of Template Solution of ICS "Personnel" System", the following sub-projects were completed: "Employee's Personal Office" and "Payroll and Social Benefits Planning". The software is expected to be rolled out across LUKOIL Group's entities in 2017 and 2018. Work is underway to replicate this project in the Russian entities of the LUKOIL Group and work has begun on the dissemination of the Template Solution of ICS "Personnel" in the foreign assets of the business segment "Oil and gas production abroad", which is scheduled to continue in 2017.

**DMA, G4-LA13**

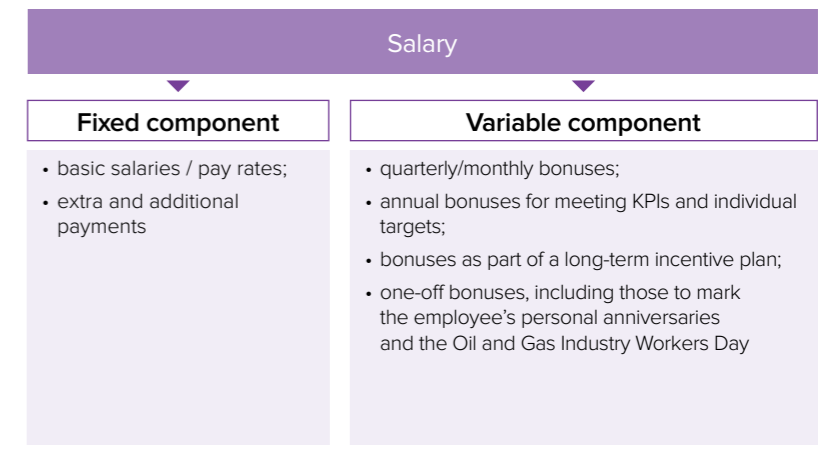
In Russian entities, the agreement between PJSC LUKOIL and the association of trade unions sets the minimum pay rate at the level of the minimum living wage of the economically active population or higher. The base salary depends on the employee's set duties, challenges inherent in their work, and level of responsibility. It is set individually for each employee and takes into account the level of training and practical experience. Salaries are indexed on an annual basis.

In the reporting period, work was continued to implement ICS "Personnel", a corporate integrated

**Remuneration, compensation and benefits**

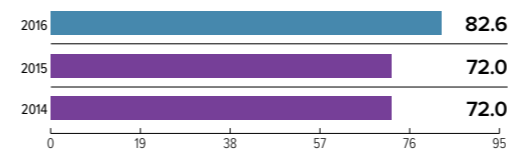
The structure of employee pay at LUKOIL Group includes fixed and variable components.

The average salary at LUKOIL Group's Russian entities is growing, and, in some regions of presence in Russia, it is above the average salary for the respective region.

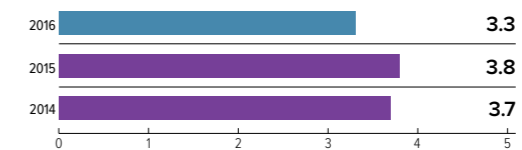


**Average salary of employees at LUKOIL Group's entities G4-LA13**

**Russian entities thousand RUB**



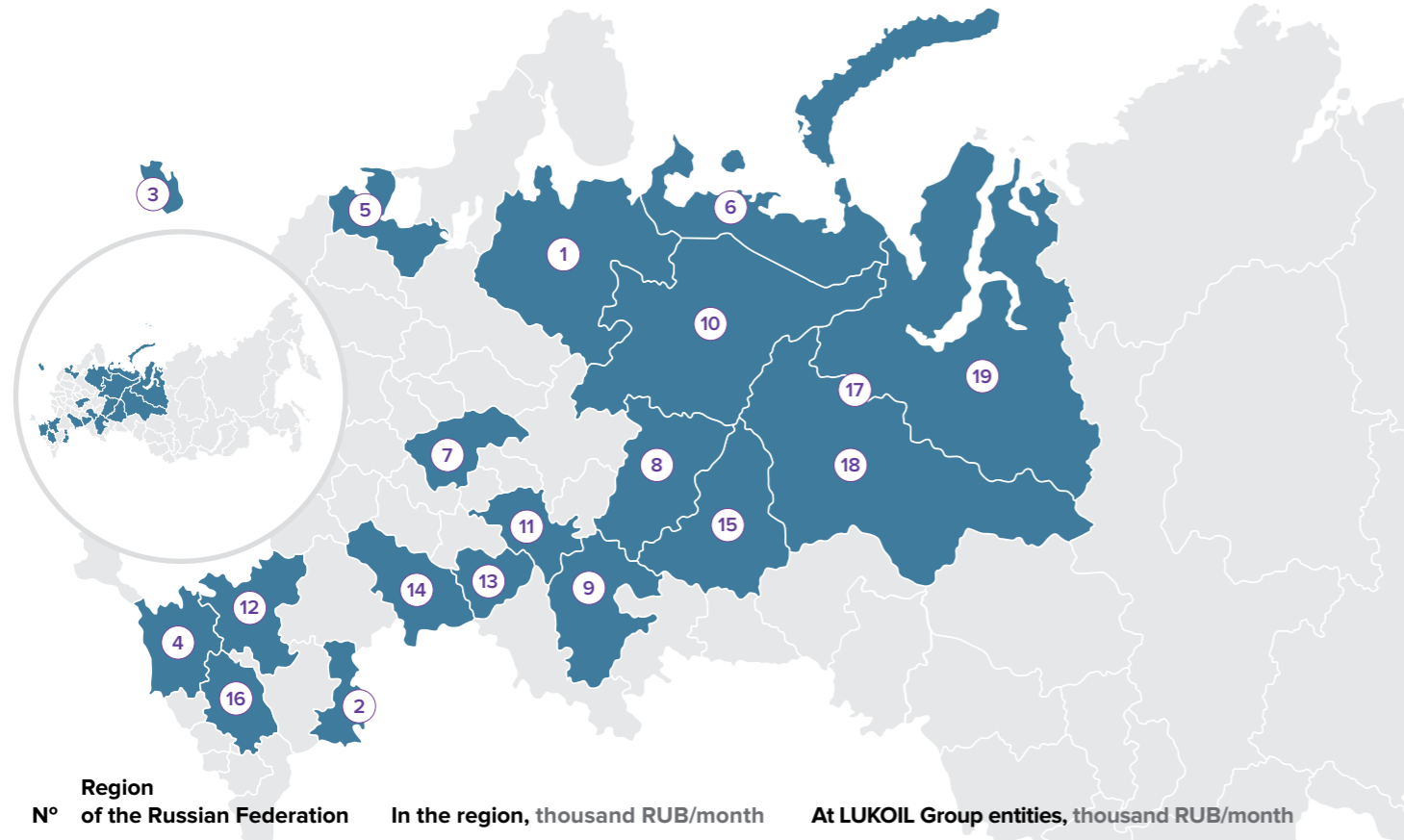
**Foreign entities, thousand USD**



Note. Calculation methodology: total salaries for employees of all LUKOIL Group entities in a region divided by the average number of employees of the entities and the number of months in the period. The table shows data for the regions where LUKOIL Group's production facilities are located.

G4-EC5

**Average salary in LUKOIL Group's Russian entities compared to average salary in the regions where LUKOIL is present, in 2016, thousand RUB/month G4-EC5**



Region N° of the Russian Federation	In the region, thousand RUB/month	At LUKOIL Group entities, thousand RUB/month
1 Arkhangelsk Region	41.0	98.2
2 Astrakhan Region	27.4	62.8
3 Kaliningrad Region	29.8	67.4
4 Krasnodar Territory	28.6	50.6
5 Leningrad Region	35.8	57.3
6 Nenets Autonomous Area	71.9	107.7
7 Nizhny Novgorod Region	28.2	65.8
8 Perm Territory	30.7	63.4
9 Republic of Bashkortostan	27.8	53.5
10 Komi Republic	43.4	88.7
11 Republic of Tatarstan	30.4	43.5
12 Rostov Region	26.7	48.9
13 Samara Region	28.5	47.6
14 Saratov Region	23.5	40.0
15 Sverdlovsk Region	32.8	42.7
16 Stavropol Territory	25.4	48.5
17 Tyumen Region	60.6	104.1
18 Khanty-Mansiisk Autonomous Area	63.6	94.0
19 Yamalo-Nenets Autonomous Area	83.8	104.9

Note. Calculation methodology for the average salary at LUKOIL Group's entities: total payments to employees of all entities operating in the region divided by the number of employees in the region. The table shows data for the regions where LUKOIL Group's production facilities are located.

The framework of incentives at Russian entities also includes a wide range of benefits and compensations set forth in the agreement between the employer and the association of trade unions, collective agreements, and other local regulations. All benefits and guarantees are provided in full compliance with the Russian Labor Code. Considerable attention

is paid in the structure of benefits and compensations to issues affecting the quality of life of employees, such as maintaining health; assisting families, female employees and children; help with house-buying; and providing social support to former employees after their retirement.

G4-LA2 UN GC

**Benefits and compensations (Russian entities) G4-LA2 UN GC**



Healthcare

- Sick leave allowances above the statutory minimum
- Contributions to voluntary medical insurance (VMI) for employees
- Coverage of services provided by healthcare facilities
- Temporary disability allowance covered from the company's own funds as per the law (first three days)
- Coverage of VMI expenses for families of employees and also employees who were made redundant as a result of headcount reduction and retirees
- Contributions under voluntary accident insurance agreements
- Payments to compensate damage to the health of employees



Health improvement, sports and leisure

- One-off entitlement for annual holiday
- Payment for the travel of employees and their families to their holiday destination and back (for those working in the Far North and equivalent areas)
- Payment for treatment, recreation, excursions and travels for employees and their families
- Compensations to employees and their families for treatment, leisure, recreation, excursions and travels
- Payment for vacation packages provided to employees' children for health improvement and leisure purposes
- Compensation to employees' children for health improvement and leisure purposes
- Tickets to health groups and classes in sports clubs
- Coverage of travel to holiday destinations



Housing support: assistance to employees in purchasing housing<sup>1</sup>

- Refund of the interest rate on a bank's housing mortgage loan
- Allowances for housing rental
- Free subsidies for housing purchases
- Loans (repayable subsidies) for housing purchases



Social support to women and families with children

- One-off financial assistance to families with children with special needs
- One-off newborn child allowance (for men)
- Coverage of New Year gifts expenses
- Coverage of kindergarten fees
- Training of employees and their families (children) not related to the Company's operations
- Maternity and childbirth allowance covered by the company
- Monthly allowances to either of the parents who is on parental leave (until the child is three years old)
- Newborn child allowance for women



Social policy with respect to young employees

- One-off financial assistance to employees returning from active military duty
- Allowance to young professionals



Other

- Coverage of relocation expenses to employees moving to another place of residence, including those moving from regions of the Far North and equivalent areas
- Meal allowances
- One-off family-related allowances (funeral, wedding, etc. expenses)
- Coverage of expenses to travel to the burial site, medical checkup, etc.
- Coverage of expenses to travel to and from work (due to the nature of operations)
- One-off retirement benefit
- One-off benefit for dismissal on disability grounds
- Death benefits
- Social support to non-working retirees

<sup>1</sup> Social support.



## Obligations under collective agreements

In 2015 and 2016, the Company fulfilled its obligations set forth in collective agreements and agreements with trade union organizations and local regulations on social support, and continued its corporate

social programs. All employees are entitled to social benefits, irrespective of their trade union membership or availability of a trade union at the company.



### All employees

are entitled to social benefits, irrespective of their trade union membership or availability of a trade union at the company

### Social payments under collective agreements at LUKOIL Group's Russian entities

Indicators	2015	2016
<b>Expenses to provide social support to employees, their families, and retirees, total, million RUB including the following programs:</b>	<b>9,637.9</b>	<b>10,201.7</b>
Healthcare, including VMI	1,317.0	1,503.5
Social support to women and families with children	371.7	358.7
Employee recreation and health improvement	3,609.6	3,921.5
Assistance to employees in housing purchases	129.0	131.6
Social support to retirees	257.4	264.3
Other social benefits	3,953.2	4,022.1
<b>Maintenance of social infrastructure facilities</b>	<b>1,262.3</b>	<b>1,246.8</b>

The Company respects the rights of its employees to receive temporary disability allowances and is committed to making all payments on time and in full. The Group's Russian entities have social insurance committees responsible for overseeing the timely and proper allocation and payment of temporary disability allowances; verifying

the Company's determination of an employee's right to receive temporary disability allowance, refusal to provide the same, or a decision to provide a reduced allowance; review disputes that arise between the employer and employees related to temporary disability allowances.

### Social payments under collective agreements at LUKOIL Group's foreign entities

Indicators	2015	2016
<b>Expenses to provide social support to employees, their families, and retirees, total, million USD including the following programs:</b>	<b>205.8</b>	<b>145.3</b>
Healthcare, including VMI	17.4	15.8
Compensation of housing rental rates	74.3	40.6
Schooling and kindergarten fees	15.1	14.6
Employee vacations and health improvement	16.7	16.6
Life/accident insurance	8.3	5.0
Coverage of expenses to travel to and from work	1.2	4.9
Employer-provided meals	6.2	5.5
Other social benefits	66.6	42.3
<b>Maintenance of social infrastructure facilities</b>	<b>0.8</b>	<b>0.7</b>

## Corporate social programs

The key corporate social programs are aimed at providing social support to employees:



Healthcare programs (including voluntary medical insurance)



Programs of assistance to employees in purchasing housing



Program of social support to women and families with children



Non-state pension scheme program

G4-LA7

### Industrial Safety

Across its entities, the Company strives to build a fundamentally new framework of personnel health management based on timely identification and management of health-related risks.

To that end, a number of projects were implemented in 2015 and 2016, including the introduction of automated pre-shift medical checkups for employees involved in underground operations.

The traditional pre-shift examination approach has limited effectiveness as it requires a lot of healthcare professionals with uneven workloads. A totally new level of performance was achieved after a pilot project was launched at the Yareganeft Oil Mines Division of OOO LUKOIL-Komi. In combination with an automated personnel health management system, automated pre-shift checkups<sup>1</sup> help to drastically speed up the checkup procedure (a 3-fold reduction in time) while also contributing to secondary prevention of significant diseases.

At mine entrances, equipment has been installed which automatically performs examinations of workers before each shift. Checkup results are submitted into the automated employee health management system, which accumulates data from regular medical examinations. By consolidating and analyzing the data, the Company can identify employees that are exposed to a high risk of professional and/or significant diseases, and can also better assess the impact from operating conditions.

There are plans to extend this approach to vehicle drivers and employees responsible for the maintenance of power supply facilities.

A special emphasis is placed on early identification and prevention of cardiovascular conditions. For employees who fall into a disease risk group, the Company develops ongoing monitoring plans (individual health improvement recommendations, an additional checkup plan, and a set of treatment and prevention activities required for each employee). **G4-LA7**

All employees in risk groups benefit from prevention and treatment measures provided by on-site health posts and healthcare facilities under VMI programs. Health post staff request employees to attend for the treatments they have been prescribed. Health posts also operate the Health Awareness and Hypertension Awareness Centers. The effectiveness of all measures is also controlled using data from the automated personnel health management system.

First aid at LUKOIL Group entities is provided by more than 100 health posts, pre-shift inspection rooms, and first-aid stations. Every year, employees get vaccinated against flu, tick-borne encephalitis and other dangerous diseases.

### VMI

VMI programs now cover over 90% of personnel. A more flexible insurance coverage mechanism is available to employees, who have the opportunity to expand their VMI coverage at their own cost, thus meeting their personal needs.



>100  
health posts

render first aid services at LUKOIL Group entities

<sup>1</sup> The checkup procedure is set forth by Order of the Russian Ministry of Health dated December 15, 2014 No. 835n.

G4-EC3



>90%

of employees

are covered by VMI programs



82

thousand employees

keep the cumulative part of retirement pensions at AO NPF LUKOIL GARANT

**Housing Program**

In 2015–2016, the Company provided housing support to its employees in accordance with the Fundamental Principles of the LUKOIL Group’s Housing Policy (human resources and social components). The costs associated with the human resources component of the housing policy are allocated in accordance with the operating personnel’s requirement for housing (external staff and young professionals). The costs associated with the social component of the housing policy are allocated to assist the personnel in housing improvements by subsidizing the interest rates applicable to mortgage loans provided by the banks.

**Pension Support**

During the reporting period, the LUKOIL Group, in line with its corporate pension standard, focused its efforts on the accumulation of pension capital for its personnel, using every available opportunity under the applicable law or local regulations, including:

- efficient management of the funded part of the pension;

- participation in the governmental pension savings cofinancing program;
- participation in the corporate program of non-state pensions, which includes standard and participatory pension plans.

As part of the program for mandatory government pension insurance, 82,154 employees have their funded component of the retirement pension in JSC NPF LUKOIL Garant as of the end of 2016, including 40,842 employees who take part in the government co-financing program.

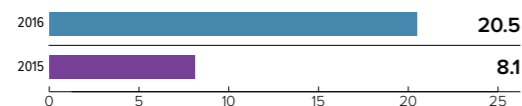
At the end of the reporting period, the Standard Pension Plan covered 41,365 people, while the Participatory Pension Plan had 39,246 active participants. Non-state pensions paid in 2016 averaged RUB 2,290.

**Non-state pension coverage in Russia G4-EC3**

Indicator	2015	2016
Total contributions by LUKOIL Group entities to JSC NPF LUKOIL Garant under corporate pension agreements, million RUB	936	917
Number of former employees who receive corporate pensions, persons	41,422	43,094
Pension payments, million RUB	1,763	1,804
Total employee contributions under individual agreements for non-state pension schemes with JSC NPF LUKOIL Garant, million RUB	451	486
Number of employees who signed individual agreements for non-state pension schemes in the reporting period, persons	5,424	5,706
Number of employees who are the fund’s contributors, persons	37,185	43,574

**Non-state pension support abroad**

**Total contributions by LUKOIL Group entities, million USD**



Pension support to employees of foreign entities of the LUKOIL Group is provided in accordance with applicable national laws and local regulations of subsidiaries.

**Professional standards and personnel assessment**

Work is being carried out to implement Federal Law dated May 2, 2015 No. FZ-122 regarding the application of professional standards at LUKOIL Group entities. PJSC LUKOIL established a working group and developed unified approaches to treating professional standards at LUKOIL Group entities, with employee duties and grades currently being aligned with the requirements of professional standards.

Following the adoption of Federal Law dated July 3, 2016 No. FZ-238 On Independent Assessment of Qualifications, the President of the Company established a Qualification Assessment Center using the resources of OOO LUKOIL INFORM. Its operational procedures and methodologies for qualification assessment are being developed.

In 2015 and 2016, 2.2% of employees of LUKOIL Group’s Russian entities were covered by the assessment. **G4-LA11 GC-6**

G4-LA11 GC-6

**Opportunities: personnel development**

For the Company, investing in its personnel means investing in the future: properly trained human resources are at the core of the Company’s sustainable development outlook. LUKOIL is building a corporate system of personnel training and development while also partnering with major industry-specific universities and other educational institutions, helping to improve the quality of education across Russia and its regions of presence.

when needed and in response to business requirements. The fulfillment of individual development plans is overseen by Vice Presidents of PJSC LUKOIL and heads of subsidiaries.

Employees in talent pools receive training in managerial and corporate competencies at the best Russian and international universities and training centers, using a wide range of learning tools available today, including training sessions, MBA programs, conferences, symposiums, projects, and internships.

**Talent Pool**

The Talent Pool program provides employees with opportunities to embark on personal and career growth and to master new skills and knowledge that meet the current needs of the oil and gas industry.

**Internships**

The Company emphasizes the importance of internships, or on-the-job training, viewing those as opportunities for employees to obtain hands-on experience in the latest production processes, gain new knowledge, and enhance their creative approach. The internship schedule for the year is prepared annually in August and September. Employees who were unable to undergo their scheduled internship due to unforeseen circumstances can re-apply the next year. An unscheduled internship is also possible, subject to approval from the entity that provides it.



17%

increase in the number of employees who applied for internships compared to 2013–2014

The composition of the talent pool for management positions (421 people) and talent pool of PJSC LUKOIL (321 people) was approved for the period from August 2, 2016 to August 1, 2019. Also, there are talent pools to fill management positions across all subsidiaries.

In 2015 and 2016, more than 2,100 employees of LUKOIL Group entities submitted applications for internships, a 17% increase compared to 2013 and 2014.

Each employee included in the talent pool has an individual development plan for a period of three years, with an annual review of performance. The individual plan can be adjusted and amended

In the reporting period, internships were held at Finland’s Fortum as a way to look into energy asset management practices. Agreements were reached with the management of Chevron and Neste to exchange best practices.



**CPI 3.1.11, G4-LA9**

**Training local staff abroad**  
 LUKOIL and its employees can boast of unique competencies and experience in oil processing. To this end, Kazakhstan's KazMunayGas initiated on-the-job training of its Atyrau Refinery's personnel at OOO LUKOIL-Nizhegorodnefteorgsintez in 2016.

In 2016, LUKOIL entities and other training centers in Russia started providing training to employees of the Kandym Gas Processing Complex, which is under construction in the Republic of Uzbekistan. The project will help the successful completion of the Kandym project and improve the professional skills of local staff in using the latest equipment.

**Training DMA**

**DMA**

LUKOIL Group entities use a wide range of training tools available today, including seminars, training sessions, internships, remote learning, and university education programs. Training is provided using both the Company's in-house training centers

and third-party educational facilities. In the reporting period, opportunities to improve skills and enhance competencies were made available to more than half of the employees at LUKOIL Group entities in Russia and abroad.

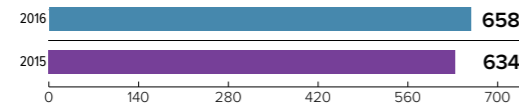
**Number of employees who received training, total for LUKOIL Group G4-LA9**

Indicator	2015	2016
<b>Number of employees who received training, persons, including:</b>	<b>60,300</b>	<b>69,571</b>
Managers, administrative staff, employees	26,042	–
employees	34,258	–
<b>Share of employees who received training in total headcount, %</b>	<b>57</b>	<b>66.5</b>

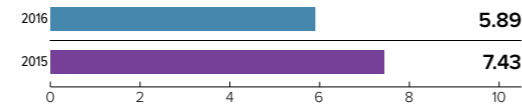
Note. As a result of changes in the annual reporting forms, methodology information on training in 2016 with a breakdown by employee category is unavailable; training data is currently being collected with a breakdown by category. Data on managers, experts and other employees pursuing second university degrees was no longer taken into account, and data on workers who attended advisory workshops, awareness seminars and received distance learning was introduced in the records.

**Expenses on training and development of LUKOIL Group entities staff CPI 3.1.11**

**Russian entities of LUKOIL Group, million RUB**



**Foreign entities of LUKOIL Group, million USD**



**69.6**  
 thousand employees  
 of LUKOIL Group completed trainings in 2016

**Remote Learning**

2015 and 2016 saw a major rise in the number of employees covered by the remote learning system (almost a seven-fold increase compared to 2014), driven by the development of e-learning based on the latest IT technologies. **G4-LA10**

In 2016, 56 LUKOIL Group entities joined the remote learning system, with more than 93,000 registered users. Over 68,000 e-learning courses were successfully completed throughout 2016.

**G4-LA10**

**Corporate Knowledge Management System**

The corporate knowledge management system ensures the exchange of professional experience and knowledge among employees and entities of the LUKOIL Group (the system covers more than 10,000 employees, with 240 expert communities in place). Young professionals and other employees

grow and develop as they work alongside renowned corporate experts. The system brings people into communities and networks, offers access to external knowledge and experience, helps retain knowledge, create and spread best practices and also jointly implement development projects.



**93**  
 thousand users

are registered in the distance learning system



**Number of employees who received training under corporate programs in 2016, across LUKOIL Group entities**

Program	Count
Executive MBA "Oil and Gas Business Management. The Manager of Today"	32
"Head of Oil and Gas Upstream Unit – 2015" (new)	61
Specialized training programs for drilling professionals (developed together with the Tyumen Industrial University, Schlumberger Logelco Inc. and Halliburton International)	101
"Days of Professional Training for Managers" (twice a year)	100% of managers of subsidiaries

**PROFESSIONAL DEVELOPMENT THROUGH THE CORPORATE TRAINING AND DEVELOPMENT SYSTEM HAS A POSITIVE IMPACT ON EMPLOYEE EFFICIENCY, ENHANCING THE HR POTENTIAL OF THE COMPANY IN GENERAL AND ENABLING IT TO ADDRESS ISSUES RELATED TO NEW BUSINESS AREAS WHILE ALWAYS STAYING COMPETITIVE.**

## Youth Policy

Creating opportunities for young people is among LUKOIL's strategic activities in sustainable development and is being implemented both in Russia and worldwide. The goal is to assist them in obtaining a quality education and to quickly adjust to the real needs of today's production

facilities in order to create the basis for successful employment in the industry.

The LUKOIL Group has the Comprehensive Target Program for Youth Outreach for 2008–2017 with the following goals.

### Goals of the Comprehensive Target Program for Youth Outreach for 2008–2017



ongoing recruitment of young qualified professionals



reduction in the turnover of young professionals



improved corporate culture and motivation of young employees to excel in their jobs and to grow professionally

### Key areas of engaging young professionals

#### Forum of Young Employees of LUKOIL Group entities

In April 2016, the Company held the 3rd Forum of Young Employees of LUKOIL Group entities, which brought together 300 young employees and professionals from 55 subsidiaries. The forum included roundtable discussions on a variety of business segments, which involved managers of the Company as well as its longest-serving employees. The final day of the forum was marked by a meeting with PJSC LUKOIL's President, Vagit Alekperov, who responded to questions asked by young employees and presented awards to those who made a significant contribution to the growth of the corporate youth movement.

#### R&D competitions and conferences

R&D competitions and conferences are held on an annual basis. In 2015, they were held in 29 entities of LUKOIL Group and in 2016, in 26 entities. Young professionals also took part in the second and third All-Russian "New Idea" competition for the best technical development, which is held under the auspices of the Russian Ministry of Energy. Over the last two years, 81 applications have been submitted to the contest, with 17 of them eventually winning.

#### Councils of Young Professionals

These associations aim to help young employees to familiarize themselves with the requirements of the Company. Councils meet to discuss important matters and develop joint projects. Off-site meetings of the Council of Young Professionals of LUKOIL Group are held annually in Russian regions. In 2015, the event was hosted by Saint-Petersburg's OOO LUKOIL-Severo-Zapadnefteprodukt and in 2016 it was held at PJSC LUKOIL in Moscow.

#### Young Professionals Day

The Young Professionals Day is an annual event. In 2015 and 2016, the program included a team-building activity that involved 150 young employees from LUKOIL Group entities in the Moscow region. A similar event in line with LUKOIL Group's Comprehensive Target Program for Youth Outreach for 2008–2017 is held across many subsidiaries.

Assisting young professionals and employees in organizing their leisure is an important component of corporate culture. Young professionals actively engage in sporting events such as LUKOIL's Ski Trail or Dad, Mom and Me – We're a Sporting Family. Other important activities include volunteer events held to aid orphanages.



300

young employees and professionals

took part in the Forum of Young Employees of LUKOIL Group entities in 2016

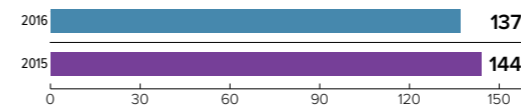
### Efforts targeting young professionals in Russia

Indicator	2015	2016
Total number of young employees, persons	26,275	43,787
Number of young professionals, persons	2,097	2,013
Number of young employees recruited, persons	9,281	12,879
including young professionals, persons	914	817
Number of students who study under agreements signed by LUKOIL Group entities, persons	344	345
Number of students who received on-the-job training at LUKOIL Group entities, persons	2,950	3,000

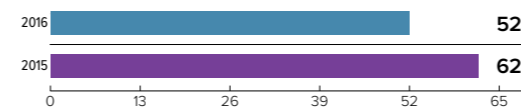
Note. In accordance with the industry-wide agreement of organizations operating in the oil and gas industry, construction of oil and gas infrastructure in the Russian Federation for 2014–2016<sup>1</sup>, the Company defines a young employee as an employee aged under 35. A similar criterion for young employees is also set forth by the agreement between the employer and LUKOIL's Association of Trade Unions for 2015–2017.

### Results of the 10th and 11th Russia's Young Professional of the Year Contests

#### Number of participants, persons



#### Number of winners, persons



43.8

thousand people

the total number of young employees in Russia in 2016



<sup>1</sup> Extended until December 31, 2019.



# COMMUNITY

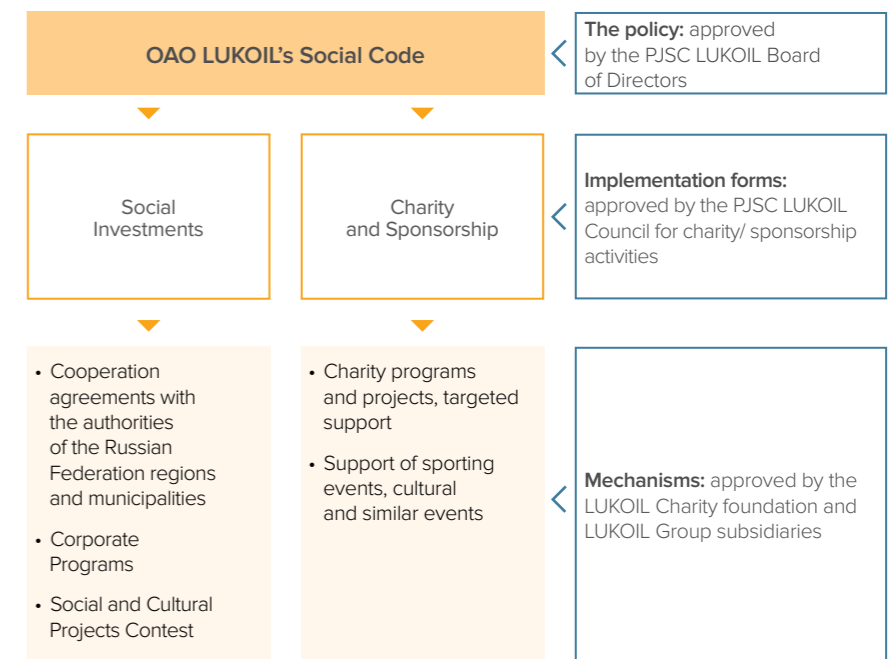


The Company's policy regarding community relations is determined by the Social Code of OAO LUKOIL. The Company has been using various mechanisms to comply with its obligations, upgrading them as new forms of such activities emerge and as soon as the partners are ready for them.

## Management Approach



### Social Investments Management System



### Program effectiveness is measured by means of:



85 Management Approach

90 High quality industry-specific education

94 Charity and Sponsorship

87 Social Investments

92 Interaction with the indigenous minorities of the North





## 2030 Sustainable Development Goals and the Company's Activities



### No poverty

**Implementation: basic documents**

- Charity program

**Execution**

- Indigenous minorities of the North support program
- Support for childcare organizations

**Key strategic points**

- Improvement of social adaptation and self-actualization of target groups



### Good health and well-being

**Implementation: basic documents**

- Charity program

**Execution**

- Annual support of healthcare institutions in the regions of the Russian Federation

**Key strategic points**

- Improved quality of medical care due to increased investment in facilities and scientific development



### High quality education

**Implementation: basic documents**

- Comprehensive program of cooperation between LUKOIL Group entities and industry-specific higher education institutions (oil, chemistry and energy)

**Execution**

- Annual support of the industry-specific institutions
- Cooperation agreements with 14 higher education institutions

**Key strategic points**

- Improvements in the quality of education due to increased investment in training facilities and the development training materials



### Sustainable cities and communities

**Implementation: basic documents**

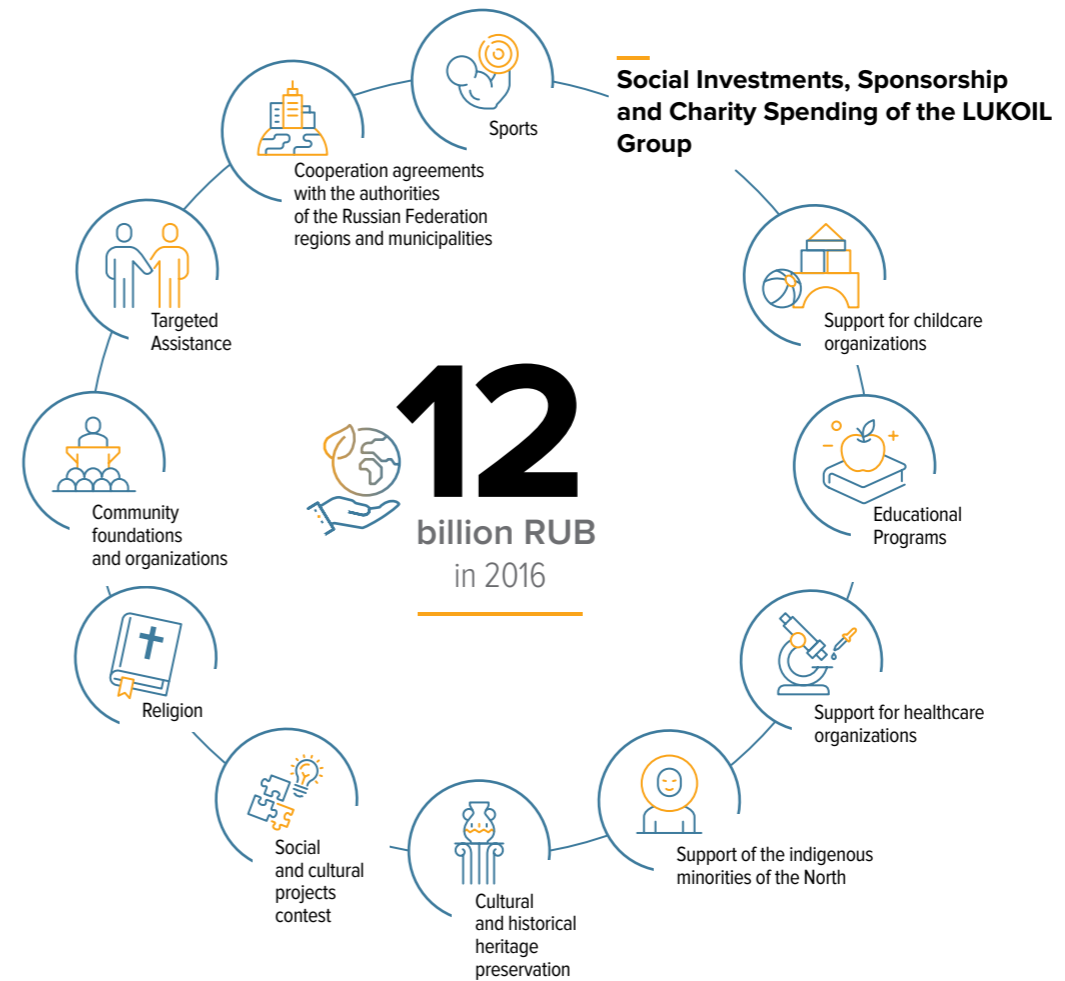
- OAO LUKOIL's Social Code

**Execution**

- Social and Cultural Projects Contest

**Key strategic points**

- Increase community activity to solve social problems and facilitate the socio-cultural development of the indigenous minorities of the North



Note. The indicator calculation method will be revised.

## Social Investments DMA, G4-EC7, G4-SO1

DMA, G4-EC7  
G4-SO1

Social investments and natural investments (just discussed) are supplemented by targeted financing of programs or projects that have a lasting effect and positive impact on living standards in the Russian regions. Social investments are implemented by means

of cooperation agreements with the authorities of the regions and municipalities and through corporate programs. Stakeholder engagement is part of the governance system.

## Regional Partnership Agreements

LUKOIL abides by the principles of social partnership and views administrations of Russian districts and municipalities as its key partners in resolving social and economic problems existing in the areas where the Company has a presence.

with the authorities of the regions to evaluate mutual performance of contractual obligations. LUKOIL complies with its obligations consistently, as confirmed by the surveys of its partners.

A wide range of questions is addressed under these agreements: those related to economics, infrastructure, social questions, etc. and region-specific ones (such as support of the indigenous minorities of the North). PJSC LUKOIL holds regular meetings

A substantial part of capital expenditure is invested into social infrastructure development in the regions, including construction and renovation of kindergartens, schools, sporting facilities, out-patient clinics and hospitals, cultural institutions and other socially significant facilities.



### Social and Cultural Projects Contest

One of the most effective forms of social investments practiced by PJSC LUKOIL is its Social and Cultural Projects Contest, which has been held annually since 2002 by the LUKOIL Charity Foundation (hereinafter - the "LUKOIL CF") and Company subsidiaries.



LUKOIL has invested over

**700**  
million rubles

into socially significant projects, since 2002

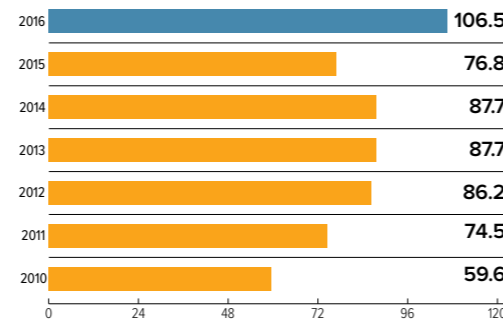
**Contest objective**

Stimulate social activity so as to address topical problems in the regions and make the Company's charitable effort more effective.

**Contest results**

- Improved social climate
- Decent conditions for sporting activities, creative work and arts created
- Folk arts and crafts revived
- New workplaces created

**Amounts of financing for the winning projects, million RUB**



**INTERACTION WITH GRANT RECEIVERS: DEVELOPMENT OF NCO COMPETENCES**

In addition to distributing the grant funding for the Social and Cultural Projects Contest, OOO LUKOIL-Volganefteprodukt takes steps to ensure that the contest creates grounds for development of non-commercial organizations and initiatives in the region. Initially (from 2009), training workshops and seminars were arranged for the winners on topics important to NCOs. Since 2015, a new format has been used - the Festival of Winners, which includes a program of lectures, training seminars and presentations of outstanding projects. An exchange of experience between the regions is also incorporated.

The main task of the festival is to act as a unifying platform for NCOs to improve the quality and professionalism of their work and to introduce modern social models and practices into their projects.

The first festival was held on October 13, 2015 in Nizhny Novgorod. 80 NCO representatives from six regions took part in it: The Nizhny Novgorod Region, Vologda Region, Vladimir Region, the Republic of Mari El, Mordovia and Chuvash Republic. On September 27, 2016, also in Nizhny Novgorod, the second Festival of winners was held with a broader range of stakeholders present: the authorities, the LUKOIL Charity Foundation, NCOs, municipal and tax-funded organizations. Leading coaches of the region led special training seminars for the recipients of contest grants.



"Our team from the Yaroslavl Region received lots of useful information and brought back wonderful impressions; we hope to continue our project next year".

**Lyubov Postnikova,**  
Director of Kindergarten 41, the village of Petrovskoe, contest winner

The Contest comprises three nomination categories: The Environment, Spirituality and Culture, and Sports. In addition to these, a different special category is approved each year. In 2015, to mark the 70th anniversary of the end of the Great Patriotic War (WWII), the special category, "Victory", was approved. In 2016, to honor the 25th anniversary of PJSC LUKOIL, the special category, "Energy for the benefit of mankind", was approved. The geographical coverage of the contest has been constantly expanding. In 2016, it covered as many as 20 Russian subjects.



"The LUKOIL Social and Cultural Projects Contest has been in place in the regions for ten years now. Over this period, non-commercial organizations submitted over 1,500 applications, a third of which received funding. Our objective is to create the necessary foundation for NCOs to move forward without restraint and to implement new ideas".

**Ilya Borodin,**  
CEO of OOO LUKOIL-Volganefteprodukt

### Social entrepreneurship

"More than just a Purchase!", a partnership project of LUKOIL and "Our Future Foundation", a Regional Social Program Foundation, is a unique initiative aimed at solving pressing social problems, and creating opportunities for socially disadvantaged groups to find jobs and improve their lives.

Convenience stores at filling stations offer goods manufactured by social entrepreneurs. Assisting small business start-ups and ensuring a distribution channel for their products, the Our Future Foundation and LUKOIL help social enterprises to attain financial stability. As a result, they can offer jobs to a greater number of people including mothers of large families, the elderly, the physically impaired, graduates of childcare institutions, etc.

The first point of sale offering the products of social entrepreneurs was opened in 2014. Over the three years the project has been running, the number

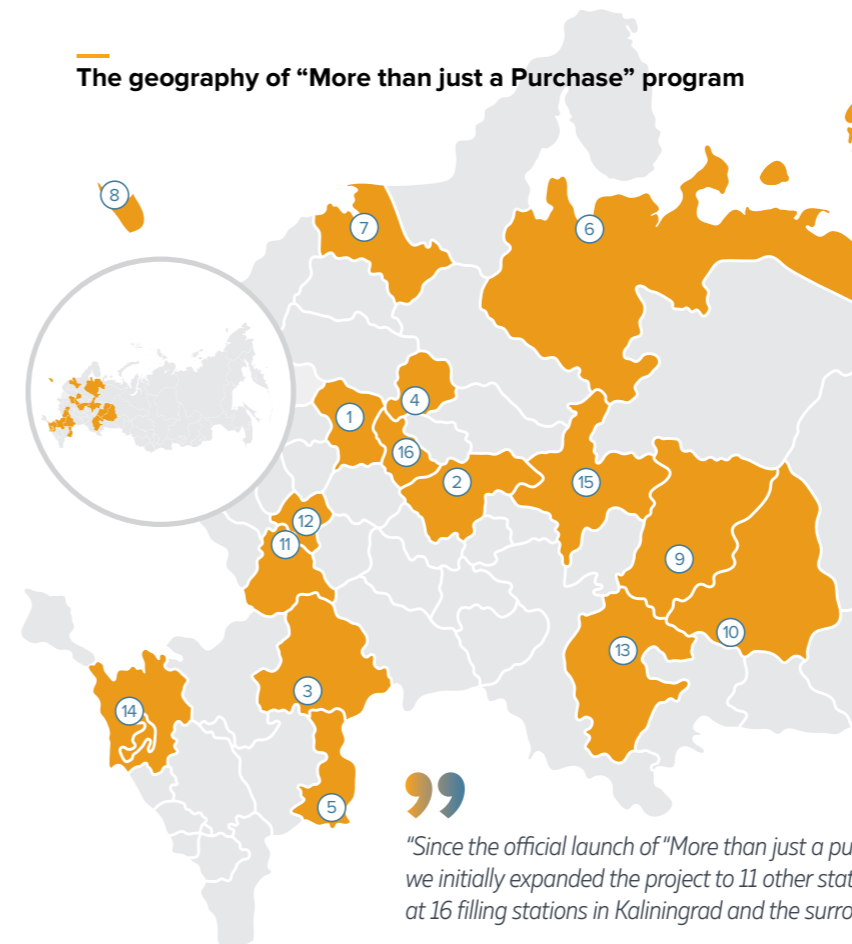
of filling stations participating in the project has increased and the variety of products on offer has been extended.

At present, over 20 social enterprises take part in the project. They manufacture souvenirs, popular craftwork items, homewares from natural raw materials and foodstuffs. For instance, in the Nizhny Novgorod Region, LUKOIL filling stations offer Khokhloma painted wares, products of the social projects "Naive? Quite so!" and "It's easy to help" and other goods.

By buying them, customers of LUKOIL filling stations, together with the Company, support social entrepreneurship and help people solve problems through their own resources. Taking into account the extensive geography of the LUKOIL filling station network, the idea of social entrepreneurship is gradually spreading across the whole of Russia.



### The geography of "More than just a Purchase" program



#	City	Number of filling stations involved in the program
1	Moscow	25
2	Nizhny Novgorod	14
3	Volgograd	11
4	Rostov Veliky	2
5	Astrakhan	4
6	Arkhangelsk	5
7	St. Petersburg	28
8	Kaliningrad	15
9	Perm	23
10	Ekaterinburg	5
11	Voronezh	3
12	Lipetsk	2
13	Ufa	5
14	Krasnodar	5
15	Kirov	5
16	Vladimir	3

"Since the official launch of "More than just a purchase" in Kaliningrad, together with LUKOIL, we initially expanded the project to 11 other stations, and now our stands are present at 16 filling stations in Kaliningrad and the surrounding region".

**Yevgeny Rakhnovsky,**  
deputy director of Charity and Social Projects Department of Our Future Foundation



**with 8**  
Russian higher education institutions in the sphere

of oil, chemistry and energy the Company maintains long-term relationship

### High quality industry-specific education

Over the years, the Company has been supporting secondary level education and higher education in Russia. The investments in this area are intended to address the following issues:

- improve the facilities and the methodological framework of industry-specific institutions (higher education institutions and colleges) and modernize the educational process;
- increase the interest in technical disciplines among schoolchildren;
- offer more educational opportunities to children from orphanages;

- participate in the implementation of state policy aimed at the improvement of professional education in the country.

Thanks to the Company's support, the facilities and the educational foundations of industry-specific educational institutions have been significantly reinforced: new manuals have been published, and promising students and talented teachers have received support.

### Interaction between the LUKOIL Group and Russian higher education institutions

The number of education institutions the Company collaborates with, both in Russia and abroad, continues to increase. In 2016, a Cooperation agreement was signed with Tyumen industrial university and Bukhara Oil and Gas Professional College. The Bukhara college is considered to be one of the core sites used to prepare and train future employees (primarily operating personnel) in the Republic of Uzbekistan.

A Long-standing cooperation relationship exists between LUKOIL and Gubkin Russian State University of Oil and Gas, in the area of research, engineering

and education. In 2015, at a meeting jointly held by the Innovative Management Academic Department and the Task Team responsible for maintaining contacts with the university, the 2016–2018 Action Plan was approved.

Since 2013, multifunctional centers for applied oil-specific professions have been established by the Company. Their objective is to bridge the gap between the economic need for skilled workers and the real level of education they receive in the academic system.

### Comprehensive program of cooperation between LUKOIL Group entities and industry-specific higher education institutions (oil, chemistry and energy)



**Key Areas of Cooperation**

- career guidance for schoolchildren;
- work with students in higher education;
- training and development of LUKOIL Group entities and staff;
- research and technology activities;
- procurement activities.



**Implementation mechanisms**

- set-up of educational organization departments at LUKOIL Group entities;
- development of professional standards jointly with industry-specific educational organizations and changing educational standards based on them;
- internships for students and on-the-job training for professors at LUKOIL entities;
- participation of students and professors of higher education institutions in sci-tech contests and LUKOIL young specialists conferences, lectures by Company representatives at universities, etc.



**In 2015-2016**

**New departments opened:**

- the specialized Oil and Gas Engineering department of Perm national polytechnic research university at OOO LUKOIL Engineering branch PermNIPneft;
  - the specialized Innovative Well Construction Technologies department of Tyumen industrial university at OOO LUKOIL Engineering branch KogalymNIPneft'.
- Lectures at educational institutions were delivered by representatives of OOO LUK International, OOO LUKOIL Engineering and AO RITEK

### Scholarships

Since 2000, within the framework of the Charity program, the Company has been funding personal scholarships and grants to support talented students and young academic staff at oil-industry oriented or technical higher education institutions.

#### Scholarship program indicators in Russia

Indicator	2015	2016
<b>Student grants</b>		
Scholarship holders, persons	185	185
Amount of financing, million RUB	5.6	5.3
<b>Personal grants for academic staff</b>		
Grant holders, persons	80	80
Amount of financing, million RUB	9.7	8.4

#### The following higher education institutions have received assistance in the reporting period:

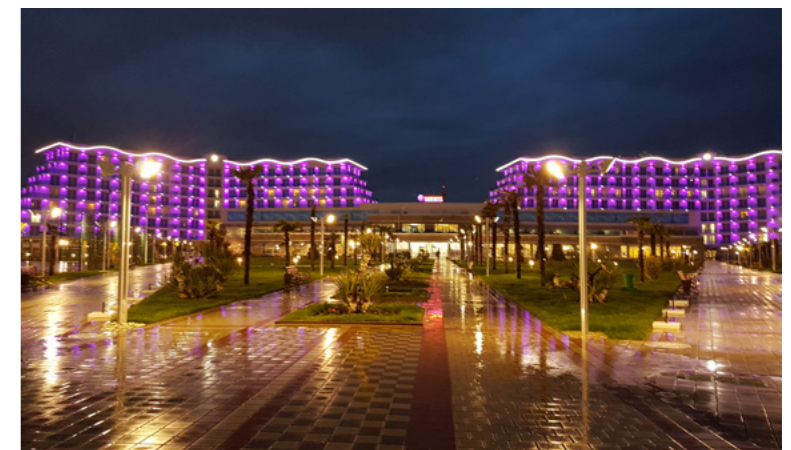
- Saint-Petersburg State University - for the implementation of new research projects;
- The Museum of Geology under the Russian Academy of Science - for the establishment of an Intercollegiate academic navigation center for mining and geology-specific professions;
- M.V. Lomonosov Northern (Arctic) University - to equip the scientific library.

### SIRIUS Education center

In 2016, the management of the Company decided to provide financial support to the SIRIUS Educational Center in Sochi, as its objectives are in line with the Company's priorities in the area of educational development.

The children are taught and trained by leading teachers from schools specializing in sports, physics, mathematics, chemistry and biology, and also by well-known figures in Russian academic music, classical ballet and fine arts.

The objective of the SIRIUS Center is to single out gifted children who have demonstrated outstanding abilities in the area of art, sports, science and technical creative endeavors at an early stage. Every month SIRIUS receives 600 children, aged ten to seventeen, from several dozen Russian regions. They have been accompanied by over 100 teachers and coaches, who are given an opportunity to improve their competencies at the Center.



Since 2000, the Company has been funding personal scholarships and grants to support talented students and young academic staff at oil-industry oriented or technical higher education institutions



## Interaction with the indigenous minorities of the North **G4-OG9**

Expansion of oil and gas production in the regions of Siberia and the Arctic zone by the Company's subsidiaries affects the traditional way of life and the traditional economy of the indigenous minorities of the North (IMN).

### Management Approaches

The Company bases its interaction with the IMN on the principles of respect towards their rights, legitimate interests, ethnic and cultural uniqueness and traditions. The Company's policy regarding the indigenous minorities of the North is set forth in the provisions of the contracts between PJSC LUKOIL and the autonomous areas. **DMA**

PJSC LUKOIL builds its relations with indigenous people on the basis of clauses contained in its license agreements, agreements on socio-economic development of regions and places with a dense population of indigenous minorities. The Company's duties include such activities as:

- compensation for environmental damage;
- compensation for damages to the traditional natural resources utilized by the indigenous minorities of the North;
- consultation with the indigenous population on the construction of facilities and exploration activities;
- implementation of environmental protection measures;

- provision of helicopters and vehicles for medical services and transportation of products for the indigenous minorities, and many other services.

In accordance with the legislation of the Russian Federation, prior to the launch of industrial projects, the subsidiaries hold public hearings to evaluate the environmental impact (EI) of the project, where the IMN can share their suggestions. The consent of the IMN to the implementation of hydrocarbon upstream projects is determined by EI procedures.

Departments for relations with indigenous people have been created in subsidiaries (or persons responsible have been appointed), by means of which complaints and suggestions can be submitted to the Company. From time to time, subsidiary employees undertake trips to nomad camps and national settlements so as to meet the indigenous people in person.

### Interaction mechanisms

Following international principles and best practice, as projects are being implemented, subsidiaries maintain a constant dialogue with the indigenous people, supporting their socio-economic development and the preservation of their culture and traditions. The IMN interaction policy is governed by the provisions of the Social Code of OAO LUKOIL (p. 2.4. Preservation of national/cultural authenticity).

Implementation of the provisions of the Social Code is carried out through programs approved annually by subsidiaries in the Khanty-Mansiisk Autonomous Area - Yugra, the Yamalo-Nenets Autonomous Area, the Nenets Autonomous Area, the Komi Republic, West Siberia and the Perm Territory. The key mechanisms of interaction include:

- cooperation agreements with the authorities of the regions of the Russian Federation and PJSC LUKOIL;

- economic agreements with leaders of territories on traditional ecological management;
- socio-economic development agreements with deer farms;
- agreements and cooperation with the non-governmental IMN organizations, such as Save Yugra, Yamal - for our Descendants, the Assembly of the Indigenous Minorities of the North, Association of the Nenets people Yasavey, the Union of Deer Breeders, etc.;
- Social and Cultural Projects Contest.

Economic agreements with the leaders of territories on traditional ecological management of the Khanty-Mansiisk Autonomous Area - Yugra, has made it possible to maintain a traditional lifestyle and indigenous economic activities. The compensations payable under the economic agreements include monetary payments, provision

of boats, snowmobiles, sleighs, out-board engines, power stations, chainsaws, compound animal feeds, air- and automobile transportation, medical care, education and job opportunities.

In the Nenets Autonomous Area, PJSC LUKOIL supports the IMN in accordance with the agreements on socio-economic development of agricultural production cooperatives in the territories in which it operates. Under the agreements, the deer farms build houses

and corrals, purchase equipment and fuel, arrange vacations for the deer breeders and their children and ensure adequate, vitamin-rich nutrition.

The Company gives priority attention to its relations with non-governmental organizations, particularly in the sphere of the preservation of ethnic identity, language and cultures of the IMN. As part of the Social and Cultural Projects Contest, PJSC LUKOIL supports initiatives of the IMN.

**G4-14**



### Rules of conduct

LUKOIL Group entities take steps to inform their employees and the employees of their contractors of the rules of conduct in the territories of traditional lifestyles and activities of the indigenous people so as to avoid conflict situations

### Rules of operation in the territories of traditional IMN residence

Prior to development, each field is studied by archeologists who run mandatory historic/cultural research. It is obligatory to obtain the consent of the indigenous population for planned development sites and geological exploration in order to avoid future conflicts at the planning stage and take into account the interests of all parties. **G4-14**

LUKOIL Group entities take steps to inform their employees and the employees of their contractors of the rules of conduct in the territories of traditional

lifestyles and activities of the indigenous people so as to avoid conflict situations. At OOO LUKOIL West Siberia such activities are governed by Order No. 262 "On the measures limiting access to the territories of communal family lands". The rules outline limitations of access to the territories of communal family lands for the purposes of wild crops harvesting, hunting, fishing and visits to nomad camps. It is also prohibited to keep dogs and to tame dogs. Air transportation over nomad camps, deer calving locations and pasture is to be avoided.

### Prospects and plans of interaction

#### The plans of PJSC LUKOIL as regards further development of interaction with the IMN



full compliance with legislation on indigenous issues



further enhancement of environmental safety measures



assistance in preservation of traditional lifestyles of the indigenous population in the territories impacted by the construction of facilities

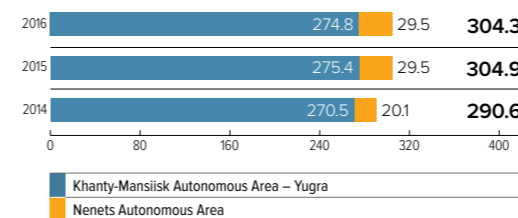


study of the life issues of the indigenous population in the regions of activities and joint resolution of these issues



further improvement of the dialogue between stakeholders

### Support of IMN in Russia under the license commitments of the subsidiaries, million RUB



Note. License commitments include compensatory payments under the Economic agreements with the leaders of territories of traditional natural management and under agreements on socio-economic development with deer farms.

**G4-OG9, DMA**



### The Company bases its interaction with the IMN

on the principles of respect towards their rights, legitimate interests, ethnic and cultural uniqueness and traditions

G4-EC8

## Charity and Sponsorship G4-EC8

### Support for childcare organizations

The goal of the Orphanages and Boarding Schools Support Program is to help their graduates receive education, improve their health, get a profession and find their place in life. Starting from 2006, the LUKOIL Charity Foundation has been paying out personalized 'LUKOIL' scholarships to the alumni of the sponsored orphanages studying at higher and secondary education institutions. In 2016, scholarships were paid to 49 orphanage graduates.

In the Nizhny Novgorod Region, the Foundation provides assistance to the Kstovo Petroleum Technical School, which also includes students of sponsored orphanages (in 2016 the Foundation supported four scholarship holders). Thus, a comprehensive program of social integration for children in difficult circumstances is being implemented.

During the vacation period, the Foundation arranged a trip to Moscow for the students of the Astrakhan Region orphanages who won the drawing contest, "We're Drawing the Kremlin". The main event of this trip was an exhibition of the drawings of the contest winners in the Grand entrance hall of the Armory of the Moscow Kremlin museum and the award ceremony.

PJSC LUKOIL has been sponsoring the "Spasskaya Tower" international military music festival for many years. Every year orphanage students are invited to the festival. Apart from seeing the festival performances, they can participate in the master classes, quests and interactive programs.



In the reporting period, the Foundation continued its support of Children's Art Schools in the regions where the Company is present and acquired musical instruments for the schools in the Volgograd Region, the Nizhny Novgorod Region, the Samara Region and the Republic of Kalmykia.

Special attention is given by the Foundation to the children in need of specialized assistance. The project called "A Book as a Gift to Every Blind Child" has been underway for many years as part of the Illustrated Books for Young Visually Impaired Children Program. In 2015-2016, such editions were handed over to specialized childcare institutions of the Astrakhan Region and Kaliningrad Region, Perm, Samara, Kazan and Budennovsk.

The LUKOIL Group entities in Bulgaria traditionally take part in the Bulgarian President's charity initiative Bulgarian Christmas, which helps raise funds for the treatment of sick children and for upgrading of equipment at children's hospitals.



### Support for healthcare organizations

LUKOIL Charity Foundation (CF) supports large medical research centers and treatment centers both at the federal and regional level. The Foundation's support fosters development of the medical service system and helps improve the technological infrastructure of medical institutions. Among the regular partners of the Foundation: The Russian Cardiology Research Center and the A.V. Vishnevsky Surgical Institute.

On a yearly basis, assistance is provided to regional and specialized hospitals. In 2015-2016 such assistance was given to the medical institutions in Mezen (the Arkhangelsk Region), Usinsk (the Komi Republic), the village of Bolshoye Murashkino and Kstovo (the Nizhny Novgorod Region), Narimanovo and Liman (the Astrakhan Region), Nizhny Novgorod children's clinical hospital, the Rehabilitation Center named after G.N. Romanov in Saint Petersburg, and others.

### Cultural and historical heritage preservation

LUKOIL considers it an important public mission to promote Russian culture and art and to preserve it for future generations. The Company supports museums, theaters, philharmonic societies, art galleries, performance groups, both on a regular basis and under separate projects. Support of High Art is a priority.

In 2015-2016 LUKOIL acted as a partner in the following exhibitions and projects:

- In the Tretyakov State Gallery - Pavel Kuznetsov. Day-dreams. Tair Salakhov. High sun;
- At the State Historical Museum - Saint Vladimir, Equal-to-the-Apostles, Festive clothing of the Russian peoples in the 19th-20th centuries;
- At the Moscow Kremlin Museums:
  - ▶ The traveling exhibition, Tsar's and Imperial Hunts from the collections of the Moscow Kremlin Museums at the P.M. Dogadin Astrakhan Gallery;
  - ▶ The traveling exhibition in Samara, "Honors of the Russian Empire". From the collections of the Moscow Kremlin museums;

The Perm branch of the Foundation provided substantial support to the M.A. Tverye Industrial Hospital No. 9, Municipal Children's Clinic No. 5, the Perm Territory Children's Clinical Hospital, Comprehensive Rehabilitation Center for the Disabled, Municipal Clinical Hospitals No. 3 and No. 21 and Children's Clinical Hospital No. 13.

In Italy, since 2013, the ISAB S.r.l. refinery has been supporting a multi-year project of prevention and treatment of cancerous diseases in Sicily in cooperation with the regional branch of the National Healthcare Institute Azienda Sanitaria Provinciale. Free medical examinations help spot cancerous diseases at an early stage.



### LUKOIL Charity Foundation (CF)

supports large medical research centers and treatment centers both at the federal and regional level



**THE COMPANY SUPPORTS MUSEUMS, THEATERS, PHILHARMONIC SOCIETIES, ART GALLERIES, PERFORMANCE GROUPS, BOTH ON A REGULAR BASIS AND UNDER SEPARATE PROJECTS. SUPPORT OF HIGH ART IS A PRIORITY.**

- ▶ in the Russian museum – exhibitions: "Serov. Not a portrait painter", "Silvester Shchedrin and the school of Posilippo";
- At the Pushkin State Museum of Fine Arts - "The Voices of André Malraux's Imaginary Museum"; Funding was provided so as to set up an archive and perform a restoration of a collection of Sumerian cuneiform tablets.





### One of the large projects

of the reporting period was support of a new permanent exhibition “Northeast Passage” at the Fram museum in Oslo, Norway

With the aid of the LUKOIL Charity Foundation, assistance has been provided to:

- V.M. and A.M. Vasnetsov Vyatka Region Museum of Fine Arts - to organize a number of exhibitions Her Majesty Collection dedicated to the 100th anniversary since foundation of the museum;
- The A.N. Radishchev Saratov Museum - to purchase a painting by the artist V.A. Uchaev Encounter. My father and son. 1986-1987 and to publish the album “Russian avant-garde”. The capitals and province;
- The I.I. Mashkov Volgograd Museum of Fine Arts - for the restoration of the painting “Portrait of a Lady in Black”. 17th century. Artist unknown;
- The Kaliningrad Regional Museum of Amber – for the addition of two amber articles to the collection;
- The Nizhny Novgorod State Museum of Arts - for the traveling exhibition from the collection of the Tretyakov State Gallery “At the Turn of the Century”;



- P.M. Dogadin State Art Gallery in Astrakhan - for restoration of paintings in the main collection of the gallery;
- A museum of samovars has been founded in Saratov.

The LUKOIL CF has supported a number of cultural events, and in particular:

- the all-Russian music festival “Crescendo”;
- the tour of the Youth Symphonic Orchestra of the Karelia Republic and the Urals Philharmonic Orchestra in Germany;
- concerts of the Moscow Synodal Choir;
- production of the opera “The Legend of the Invisible City of Kitezh and Maid Fevronia” by N. Rimsky-Korsakov at the Astrakhan State Theatre of Opera and Ballet;
- The 4th Muslim Magomaev International Vocalists Contest;
- The 10th International Vocalist Contest, “Amber Nightingale in Kaliningrad”;
- the music festivals “Opera Live” and “See the Music”.

The Foundation continued to support the Tchaikovsky Symphony Orchestra under the direction of V. Fedoseev, the P.I.Tchaikovsky Perm State Theater of Opera and Ballet, the Kaliningrad Region Philharmonic Society and its program “To the concert en famille!”.

The Company also supports the Chamber orchestra of Geneva on a multi-year basis. In the course of this lasting and fruitful partnership, the Company has become a notable participant of the key musical events of the region, including Christmas concerts.

One of the large projects of the reporting period was support of a new permanent exhibition “Northeast Passage” at the Fram museum in Oslo, Norway. The exhibition is dedicated to the historical cooperation between Russian and Norwegian explorers of the Arctic region in 18th-19th centuries. The exhibition materials have been collected with the participation of the Russian Geographic Society. Thus, LUKOIL keeps up the traditions of such cooperation, implementing joint projects with Norwegian partners in the Norwegian sector of the Barents Sea.

## Corporate Museum Network

The Company’s museum network comprises the PJSC LUKOIL Museum, founded in 2005, and over 25 museums of its subsidiaries in various Russian regions, Bulgaria and Romania. These are corporate museums, functioning as universal communication centers, keeping up the best traditions of the oil and gas industry.

Museum events and exhibitions are an essential part of the activities conducted by the museum network. PJSC LUKOIL Museum arranged over 20 temporary exhibitions in 2015-2016; among them - the 25th anniversary of PJSC LUKOIL, the 10th anniversary of OOO LLK International, The Energy of Victory (on the actions performed by oilmen in the Great Patriotic War (WWII), V.D. Shashin’s 100th birthday anniversary, the Youth Policy of the Company, The History of Oil and Gas Industry Awards, and many others.

## Sports

Over a number of years, LUKOIL has focused special attention on the support of sports and the promotion of a healthy lifestyle. The Company supports both professional and amateur teams, making children and youth sports a priority.

Among the professional teams supported by LUKOIL: the football club Spartak-Moscow; the Astrakhan handball club Zarya Kaspiya; the Arkhangelsk hockey club Vodnik; the Volgograd water polo club Spartak; the Cross Country Skiing Federation of Russia; the Nizhny Novgorod ice-hockey club Torpedo; and the racing team LUKOIL Racing.

PJSC LUKOIL has been the general sponsor of one of the most popular Russian football clubs - Spartak Moscow – since 2000. The team is a twelve-time champion of the USSR and a nine-time champion of Russia. The F.F. Cherenkov Spartak Football Academy operates as part of the club; around 600 young athletes are trained in the academy.

The handball club Zarya Kaspiya, Astrakhan, is one of the top-ranking clubs of Russian handball. Over the years the club has been supported by LUKOIL, it has won silver (2001-2008) and bronze (2000) awards at the Championships of Russia several times.

The Company’s museum collection, with over 5,000 items, is, in the opinion of many experts, one of the country’s most sizeable themed collections. It documents various stages of the development of the oil and gas industry and is shows the history of its formation and its current state. Exhibits from LUKOIL’s museums were often used to illustrate textbooks, historic chronicles, books and magazine articles.

The excellent facilities at the Company’s museums makes it possible for them to be used as training centers for employees of all levels, schoolchildren and university students. Since 2010, the students of I.M. Gubkin Russian State University of Oil and Gas have regularly held classes in the Company’s Museum in order to study the history of the Russian oil and gas industry and corporate culture of oil and gas companies.



A Youth Athletic Center has been created on the basis of the club, where some 900 young handball players train on a regular basis.

The professional water polo club Spartak-Volgograd is the leader of the Russian water polo Super-league.

The LUKOIL Racing Team is the leader in national car racing. Apart from participation in competitions, the team trains drivers and develops their careers; develops, tests, manufactures and prepares racing cars for competitions. LUKOIL racing team members have won over 70 Championships and Russian Cups and have secured around 700 victories in Russian and international competitions. Over the entire history of the USSR and Russia, no other racing team has ever achieved such results.



### Over a number of years

LUKOIL has focused special attention on the support of sports and the promotion of a healthy lifestyle





>3,5 thousand participants

are brought together by the Children's Champions Cup of LUKOIL

**Children's Champions Cup of LUKOIL**

One of the most notable projects in the reporting period was the Children's Champions Cup of LUKOIL - an international social project; the objective is to counter racial intolerance and discrimination in football. The project unites national associations and clubs of 40 countries and over 3,500 participants. Children's teams from the countries of Europe and Asia and well-known football players participate in the project. The Project Ambassadors are the stars of global football and coaches who won international trophies in professional sports. The final games of 2016 took place in the stadium Otkrytiye Arena. The winners were the 12-year old football players of the Portuguese team Benfica, silver went to the Italian team Genoa, while Spartak Moscow won bronze. The audience of the competitions included over 2,500 children and athletes.

**Children's Football League**

Since 2001, PJSC LUKOIL has been supporting one of Russia's largest children's sporting organizations - the Children's Football League (CFL), a regional non-governmental organization. Around 3,000 teams and 48,000 young football players from various regions of Russia take part in the CFL competitions.

In the reporting period, a number of tournaments, which have now become traditional, were held: the competition "Big stars shine on smaller ones" supervised by well-known football players and coaches is held in 16 cities of Russia (over the summer period); the competition "The field of honors in battle" commemorating 70 years since the Victory in the Great Patriotic War (WWII); open championships of CFL in eight cities of Russia (over the summer period); the traditional tournament in memory of the Fedotov brothers in Moscow (in spring), and several others.

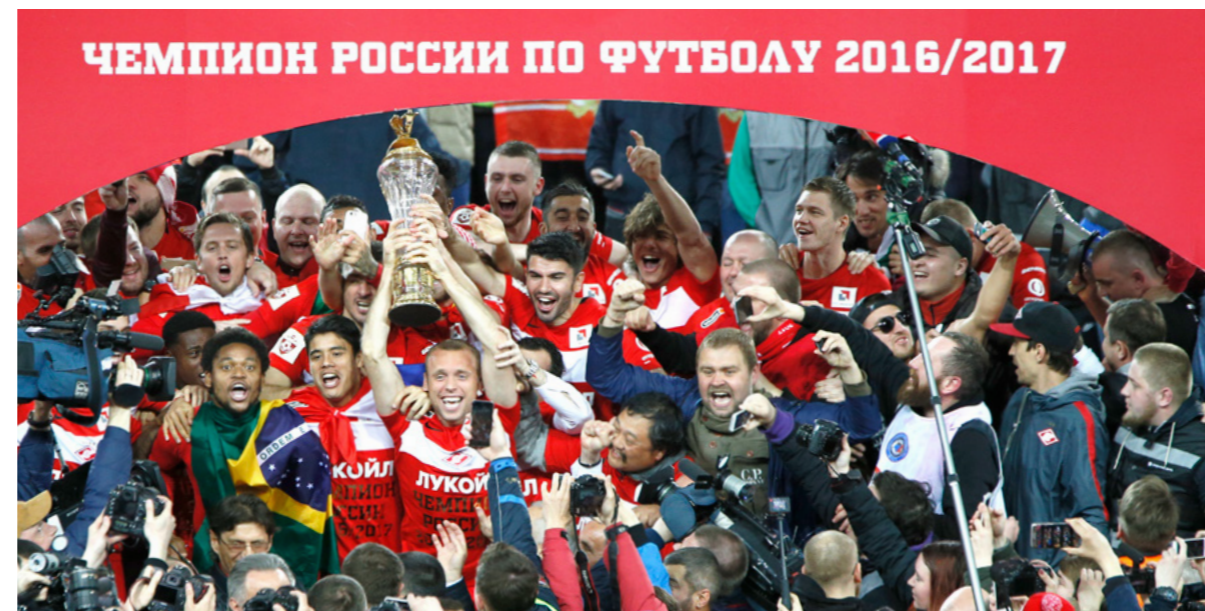
**A Biking City in Bulgaria**

Since 2012, the Company has been supporting the Burgas administration project, "A Biking City - a model of modern city mobility". This project has introduced a vast bicycle infrastructure to Burgas, which has contributed to the development of the resort's tourist potential. The project makes it possible to reduce CO<sub>2</sub> emissions and promotes a healthy lifestyle.

**Promotion of a healthy lifestyle among schoolchildren in Turkey**

Since 2015 LUKOIL Eurasia Petrol Anonim Sirketi has been implementing social projects in the territory of Turkey, supporting the pupils of primary schools. Every month the entity's employees select a school and pay a visit, bringing gifts and presents. The leading

football clubs of the country took part in some of the projects, sending sports equipment and club uniforms to the children. In 2016 at the Turkish Energy Forum LUKOIL Eurasia Petrol Anonim Sirketi received the Altin Varil award for sponsorship of these social projects.







102 Table of conformity to the GRI Guidelines, UN Global Compact and RUIE's Core Performance Indicators

113 Conclusion of the RUIE

123 Basic terms and notions

109 Conclusion of KPMG

119 Reporting boundaries

125 Contact Information on the Report

**Table of the Report's Conformity to the GRI Guidelines (G4 basic version),  
UN Global Compact and RUIE's Core Performance Indicators (2008)**

General standard disclosures		
Indicator	Statement	Report page
<b>STRATEGY AND ANALYSIS</b>		
<b>G4-1</b>	Statement from the most senior decision-maker of the organization	02
<b>G4-2</b>	Description of key impacts, risks, and opportunities	02, 22, 32
<b>ORGANIZATIONAL PROFILE</b>		
<b>G4-3</b>	Report the name of the organization.	06, 11
<b>G4-4</b>	Report the primary brands, products, and services.	14
<b>G4-5</b>	Report the location of the organization's headquarters.	11
<b>G4-6</b>	Report the number of countries where the organization operates, and names of countries where either the organization has major subdivisions or that are specifically relevant to the sustainable development issues covered in the report.	12, 14, 16
<b>G4-7</b>	Report the nature of ownership and legal form. See 2016 Annual Report, p. 121	GRI Table
<b>G4-8</b>	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	16
<b>G4-9</b>	Report the scale of the organization, including: • total number of employees; total number of subdivisions; net sales; • total capitalization broken down in terms of debt and equity; quantity of products or services provided. See the net debt to equity ratio, 2016 Annual Report, p. 121.	12, 13, 16, 17
<b>G4-10 CPI 3.1.1</b>	a. Report the total number of employees by employment contract and gender. b. Report the total number of permanent employees by employment type and gender. c. Report the total workforce by employees and supervised workers and by gender. d. Report the total workforce by region and gender. e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of subcontractors. f. Report any significant seasonal variations in employment  The Company doesn't keep records on employment agreements with a breakdown by permanent employees and temporary employees. Workers who are legally recognized as self-employed, or individuals other than employees or supervised workers are not engaged to perform any share of the operations.	71
<b>G4-11 UN GC Annex 3 CPI 3.1.4</b>	Report the percentage of total employees covered by collective agreements.	64
<b>G4-12</b>	Describe the organization's supply chain.	37
<b>G4-13</b>	a. Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including: • changes in the subdivisions or their location, or changes in operations, including facility openings, closings, and expansions; • changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations); • changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination of such relationships.  See also the Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in the Foreign Assets, p. 3, 40	13, 14, 16

General standard disclosures		
Indicator	Statement	Report page
<b>G4-14</b>	Report whether and how the precautionary approach or principle is addressed by the organization.  The Company employs the precautionary approach as part of its existing risk management system in the exercise of the EI procedures and planning of its Environmental Safety Program activities. See also the Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in the Foreign Assets, p. 9, 36, 47	93
<b>G4-15 CPI 3.3.4</b>	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	06, 21, 42
<b>G4-16 CPI 3.3.5</b>	a. List memberships of associations (such as industry associations) and/or national or international advocacy organizations in which the organization: • holds a position on the governance body; • participates in projects or committees; • provides substantive funding beyond routine membership dues; • views membership as strategic.  PJSC LUKOIL is a member of RUIE, the Russian Chamber of Commerce and Industry, the Russian Union of Oil and Gas Producers. V.Y. Alekperov, President and CEO of PJSC LUKOIL, is a member of the Management Committee of the Russian Union of Industrialists and Entrepreneurs (RUIE) and head of the Energy Policy and Energy Efficiency Committee within the Council of the Russian Union of Oil and Gas Producers.	GRI Table
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>		
<b>G4-17</b>	a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents are not covered by the sustainability report. The organization can report on this Standard Disclosure by referencing the information in publicly available consolidated financial statements or equivalent documents.  Major subsidiary list – see the 2016 Annual Report, Annex 5, note 33, p. 115	121
<b>G4-18</b>	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content. About the Report	06, 121
<b>G4-19</b>	List all the material Aspects identified in the process of defining report content. About the Report	06
<b>G4-20</b>	For each Material Aspect, report the Aspect Boundary within the organization, as follows: • report whether the Aspect is material within the organization; • if the Aspect is not material for all entities within the organization, select one of the following two approaches and report either: ▸ the list of entities or groups of entities included in G4-17 for which the Aspect is not material or, ▸ the list of entities or groups of entities included in G4-17 for which the Aspect is material. Report any specific limitation regarding the Aspect Boundary within the organization.	06
<b>G4-21</b>	For each Material Aspect, report the Aspect Boundary outside the organization, as follows: • report whether the Aspect is material outside the organization; • if the Aspect is material outside the organization, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified; • report any specific limitation regarding the Aspect Boundary outside the organization	06
<b>G4-22</b>	If any indicators shown in the previous reports have been reworded, report the results of such rewording and specify the reasons for it.  Nothing has been reworded.	GRI Table
<b>G4-23</b>	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	06



General standard disclosures		
Indicator	Statement	Report page
<b>STAKEHOLDER ENGAGEMENT</b>		
<b>G4-24</b>	Provide a list of stakeholder groups engaged by the organization.	
<b>G4-25</b>	Report the basis for identification and selection of stakeholders to be engaged.	34, 35
<b>G4-26</b>	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	34
<b>G4-27</b>	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key issues and concerns, including through its reporting. Report the stakeholder groups that raised each of the key issues and concerns.	06
<b>REPORT PROFILE</b>		
<b>G4-28</b>	Reporting period (such as fiscal or calendar year) for which information is provided.	06
<b>G4-29</b>	Date of most recent previous sustainability report (if any).	06
<b>G4-30</b>	Reporting cycle (such as annual, biennial).	06
<b>G4-31</b>	Provide the contact person for questions regarding the report or its contents.	127
<b>G4-32</b>	a. Specify the preparation option 'in accordance' with GRI the organization has chosen. b. Report the GRI Content Index for the chosen option. c. Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines. Certificate of public assurance of the report by RUIE. Independent audit of the non-financial report by KPMG.	06 111, 120
<b>G4-33</b>	a. Report the organization's policy and current practice with regard to seeking external assurance for the sustainability report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the external assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking external assurance for the organization's sustainability report.	115
<b>CORPORATE GOVERNANCE</b>		
<b>G4-34</b>	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts. The corporate governance structure is detailed in the 2016 Annual Report, p. 80-108	27
<b>G4-42</b>	Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	25
<b>G4-44</b>	Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social issues	28
<b>G4-46</b>	Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social issues	25
<b>G4-50</b>	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	29
<b>ETHICS AND INTEGRITY</b>		
<b>G4-56</b> <b>UN GC Annex 10</b> <b>CPI 1.1</b>	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	31

### Specific standard disclosures

Material Aspects	DMA and Indicators	Report page
<b>ECONOMIC CATEGORY</b>		
	<b>DMA</b>	11
	2016 Annual Report, p. 14-17	
	<b>G4-EC1</b> Economic value generated and direct economic value distributed	
	See the 2015 and 2016 Annual Reports, featuring the following indicators: proceeds, OPEX, taxes paid, excise taxes and duties, credit and loan payments, distribution of dividends, personnel costs, benefit plan payments.	Annual Reports for 2015 and 2016
Economic performance	<b>G4-EC3</b> Coverage of the organization's defined benefit plan obligations <b>CPI 1.8</b>	78
	Additionally see the 2016 Annual Report, Note 22 to the consolidated financial statements, p. 101. The National Rating Agency confirmed the highest reliability rating of AO NPF LUKOIL-GARANT at "AAA".	Annual Reports for 2015 and 2016
	<b>G4-EC4</b> Financial assistance received from government	GRI Table
	Federal and regional laws provide for tax benefits in a number of Russian constituent entities where PJSC LUKOIL's subsidiaries operate	
	<b>DMA</b>	73
Presence in the markets	<b>G4-EC5</b> Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	74
	Average salary in the Russian entities of the LUKOIL Group compared to average salary in regions of presence	
	<b>DMA</b>	87
Indirect economic impact	<b>G4-EC7</b> Development and impact of infrastructure investments and services supported	20, 87
	<b>G4-EC8</b> Significant indirect economic impacts, including the extent of impacts	11, 94
Reserves	<b>GRI G4 OG1</b> Proved reserves and production	13
	Proved reserves – see the 2016 Annual Report, p. 45	
<b>ENVIRONMENTAL CATEGORY</b>		
	<b>DMA</b>	18
	<b>G4-EN3</b> Energy consumption within the organization <b>UN GC Annex 7, 8; CPI 2.2</b>	18
Energy	<b>G4-EN5</b> Energy intensity	18
	<b>G4-EN6</b> Energy reduction <b>UN GC Annex 7.8</b>	19
	<b>GRI G4 OG3</b> Total renewable energy production by sources	20
	<b>DMA</b>	50, 51
Water	<b>G4-EN8</b> Total water withdrawal broken down into sources <b>UN GC Annex 7, 8 ; CPI 2.3</b>	52
	<b>G4-EN10</b> Percentage and total volume of water recycled and reused	52
	<b>DMA</b>	55, 56
	<b>G4-EN11</b> Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside the protected areas or adjacent to them <b>UN GC Annex 8</b>	56
Conservation of ecosystems, including biodiversity	Sustainable Development of the Russian Regions and corporate social responsibility practices in the foreign assets	
	<b>G4-EN12</b> Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	55, 56
	<b>G4-EN14</b> Total number of IUCN Red List of Threatened Species and national conservation list species with habitats in the areas affected by operations, by level of extinction risk	55
	Individual cases described	

Material Aspects	DMA and Indicators	Report page
Atmospheric emissions	<b>DMA</b>	47
	<b>G4-EN15</b> Direct GHG emissions (Scope 1) <b>UN GC Annex 7, 8 ; CPI 2</b>	49
	Total volumes of direct GHG emissions are disclosed for 2016. Data on GHG emissions are disclosed for the first time; in future the reporting system will be improved	49
	<b>G4-EN18</b> Greenhouse gas emissions intensity	49
	<b>G4-EN20</b> Emissions of ozone-depleting substances <b>UN GC Annex 7.8</b>	48
	<b>G4-EN21</b> NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions <b>UN GC Annex 7, 8 ; CPI 2.6</b>	49
Effluent discharges and waste handling	<b>DMA</b>	53
	<b>G4-EN22</b> Total water discharge by quality and destination <b>UN GC Annex 8 ; CPI 2.7</b>	52
	<b>G4-EN23</b> Total weight of waste by type and disposal method <b>UN GC Annex 8 ; CPI 2.8</b>	54
	<b>G4-EN24</b> Total number and volume of significant spills <b>UN GC Annex 8 ; CPI 2.9</b>	58
	<b>G4-EN25</b> Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention, Annex I, II, III, and VIII, and percentage of transported waste shipped internationally <b>UN GC Annex 8</b>	GRI Table
	The Company does not perform such operations.	
	<b>GRI G4 OG6</b> Total volume of APG flaring	47
<b>GRI G4 OG7</b> Total drilling waste (drilling mud and cuttings), disposal and placement approaches	53	
The indicator is partially reflected.		
General information	<b>DMA</b>	44
	<b>G4-EN31</b> Total environmental protection expenditures and investments by type <b>UN GC Annex 8 ; CPI 2.12</b>	47
<b>SOCIAL CATEGORY</b>		
<b>Labor practices and decent work</b>		
Employment	<b>DMA</b>	70
	<b>G4-LA1</b> Total number and rates of new employee hires and employee turnover by age group, gender and region <b>UN GC Annex 6 ; CPI 3.1.2 and 3.1.3</b>	71, 72
	<b>G4-LA2</b> Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	75
Employee-Employer relations	<b>G4-LA4</b> Minimum notice periods regarding substantial operational changes In accordance with the laws of the countries where LUKOIL is present	GRI Table
Health and on-site safety	<b>DMA</b>	66
	<b>G4-LA5</b> Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	67
	<b>G4-LA6</b> Type of injury and rates of injury, occupational diseases, lost days, and absentee rate, and total number of work-related fatalities, by region and by gender <b>CPI 3.1.5 - 3.1.8</b>	69
	<b>G4-LA7</b> Workers with high incidence or high risk of diseases related to their occupation	77
	<b>G4-LA8</b> Health and safety issues covered in formal agreements with trade unions	64

Material Aspects	DMA and Indicators	Report page
Diversity and equal opportunities	<b>DMA / CPI 3.1.11</b>	80
	<b>G4-LA9</b> Average hours of training per year per employee by gender, and by employee category <b>UN GC Annex 6 ; CPI 3.1.10</b>	80
	The report indicates the number of persons that underwent training	
	<b>G4-LA10</b> Programs for skill management and lifelong learning that support the continued employability of employees and assists them at the end of their career.	81
	<b>G4-LA11</b> Percentage of employees receiving regular performance and career development reviews, by gender and by employee category <b>UN GC Annex 6</b>	79
	<b>G4-LA12</b> Composition of governance bodies and breakdown of employees per employee category according to gender, age group, or minority group membership	28
Equal remuneration for women and men	<b>G4-LA13</b> Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation The basic amounts of employees' salaries are not dependent on their gender.	73 GRI Table 73
Labor practices assessment	<b>G4-LA15</b> Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	37
Grievance mechanism in regard to labor practices	<b>DMA</b> <b>G4-LA16</b> Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms Indicates grievances submitted by the LUKOIL Group employees to the Business Ethics Committee	31
<b>HUMAN RIGHTS</b>		
Freedom of association and collective negotiations	<b>DMA</b>	63, 64
	<b>HR4</b> Subdivisions and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights No such violations have been discovered in the reporting period	GRI Table
Child labor	<b>DMA</b>	63, 64
	<b>HR5</b> Subdivisions and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor No such violations have been discovered in the reporting period	GRI Table
Forced or compulsory labor	<b>DMA</b>	63
	<b>HR6</b> Subdivisions and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor No such violations have been discovered in the reporting period	GRI Table



Material Aspects	DMA and Indicators	Report page
	<b>DMA</b>	63, 92
Rights of indigenous peoples/ minorities	<b>G4-HR8</b> Total number of incidents of violations involving rights of indigenous peoples and actions taken <b>UN GC Annex 1; CPI 3.2.3</b>	GRI Table
	No such cases have been identified in the reporting period, all contractual obligations have been fulfilled. Also see the Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in the Foreign Assets, p. 15, 38	GRI Table
	<b>G4-OG9</b> Operations affecting the indigenous peoples and activities to establish relations with such peoples	92, 93
	See the Sustainable Development of the Russian Regions and Corporate Social Responsibility Practices in the Foreign Assets, p. 15, 38	
Grievance mechanisms in cases of human rights violations	<b>DMA / CPI 3.1.12</b>	65
	<b>G4-HR12</b> Number of grievances concerning human rights <b>UN GC Annex 1; CPI 3.2.2</b>	GRI Table
	No such cases have been identified in the reporting period	
<b>COMMUNITY</b>		
Local communities	<b>DMA CPI 3.3.1 and 3.3.3</b>	85, 92
	<b>G4-SO1</b> Percentage of subdivisions with implemented local community engagement, impact assessments, and development programs <b>UN GC Annex 1; CPI 3.3.2</b>	87, GRI Table
	All Company subsidiaries have programs for local community engagement in place and in progress.	
Anti-corruption	<b>DMA</b>	32
	<b>G4-SO4</b> Communication and training on anti-corruption policies and procedures <b>UN GC Annex 10</b>	32
	<b>G4-SO5</b> Confirmed incidents of corruption and actions taken <b>UN GC Annex 10</b>	GRI Table
	No such cases have been identified in the reporting period	
Government Policy	<b>G4-SO6</b> Total monetary value of political contributions <b>UN GC Annex 10; CPI 3.3.1</b>	GRI Table
	LUKOIL does not make political contributions	
Anti-competitive behavior	<b>G4-SO7</b> Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	31
Compliance	<b>DMA</b>	31
	<b>G4-SO8</b> Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Annual Report for 2016
	For the details, see 2016 Annual Report, Note 29 to the Consolidated Financial Statements, p. 110	Annual Report for 2016
<b>PRODUCT RESPONSIBILITY</b>		
Labeling of Products and Services	<b>G4-PR5</b> Results of surveys measuring customer satisfaction	16, 35, 36
Marketing communications	<b>G4-PR6</b> Sale of banned or disputed products	GRI Table
	As required by the Russian law, the LUKOIL filling stations do not sell alcohol (including beer), while tobacco products are sold in accordance with Federal Law No.15-FZ of February 23, 2013 "On Protection of Health of the Public from Exposure to Environmental Tobacco Smoke and Consequences of Tobacco Use"	



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## Independent Limited Assurance Report on the LUKOIL Group Sustainability Report 2015–2016

To the Management of PJSC LUKOIL

### 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 2015–2016 (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 assertion that the Report is prepared, in all material respects, based on the "core" version of the Global Reporting Initiative G4 Sustainability Reporting Guidelines (the "GRI G4 Guidelines") and is free from material misstatement, is not 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 G4 Guidelines, and for the information and statements contained therein.

This responsibility includes designing, implementing and maintaining internal control 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 stakeholders and their material issues; selecting applicable requirements of the GRI G4 Guidelines; 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 in relation to the information included in the Report; ensuring that staff involved with the preparation of the Report are properly

Entity: PJSC LUKOIL.

Registration No. in the Unified State Register of Legal Entities  
1027700035789.

Moscow, Russia.

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  
1027700125626.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.





PJSC LUKOIL

Independent Limited Assurance Report on the LUKOIL Group Sustainability Report 2015–2016

trained, information systems are properly updated and that any changes in the reporting system encompass all key divisions.

#### **Our Responsibilities and Applicable Standards**

Our responsibility is to perform procedures to obtain evidence in respect of the Report prepared by Management, and to form a limited assurance conclusion 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 meaningful level of assurance about whether Management's statement that the Report is prepared, in all material respects, based on the GRI G4 Guidelines 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 by 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 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 a 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, recalculations, analytical procedures and inquiries.

Our engagement also included: assessing the appropriateness of the information included in the Report and the suitability of the GRI G4 Guidelines used by Management in preparing the Report in the circumstances of the engagement; evaluating the appropriateness of the methods, policies and procedures, and models used in the preparation of the Report and the reasonableness of estimates made by Management.

The procedures we developed based on the risk assessment included, but were not limited to, the following:



PJSC LUKOIL

Independent Limited Assurance Report on the LUKOIL Group Sustainability Report 2015–2016

- Inquiries to gain an understanding of processes for determining the material issues for the Group's key stakeholder groups;
- Interviews with senior management and relevant staff at corporate headquarter level and subsidiaries concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with Management representatives and officers at corporate headquarter level and subsidiaries regarding the sustainable development strategy and policies regulating material issues in areas of importance for the Group, stage of implementation of such policies, and procedures for collecting information on sustainable development;
- Interviews with staff at the corporate headquarter level and subsidiaries responsible for providing the information in the Report;
- Visits to the following subsidiaries:
  - LUKOIL West Siberia LLC, Kogalym;
  - LUKOIL-Permnefteorgsintez LLC, Perm;
  - LUKOIL-Komi LLC, Usinsk;
  - LUKOIL Uzbekistan Operating Company LLC, Uzbekistan, Tashkent,
 which were selected based on a risk analysis using both qualitative and quantitative criteria, in order to analyse the processes of accounting, collection and presentation of data, as well as to test the reliability of data used in the preparation of the Report;
- Comparing the information presented in the Report with data from other sources to determine its completeness and consistency;
- Assessing the completeness of qualitative and quantitative information on sustainable development against recommendations of the GRI G4 Guidelines;
- Reading and analysing information on sustainable development included in the Report to determine whether it is in line with our understanding and knowledge of the Group's sustainable development activity;
- Recalculation of quantitative data and inspection of underlying documentation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

#### **Criteria Used**

To evaluate the Report, the recommendations of the GRI G4 Guidelines were used which are available at the link:

<https://www.globalreporting.org/information/g4/Pages/default.aspx>

#### **Management's Statement**

Management states that the Report is prepared, in all material respects, based on the GRI G4 Guidelines and is free from material misstatement.





**PJSC LUKOIL**

Independent Limited Assurance Report on the LUKOIL Group Sustainability Report 2015–2016

### **Inherent Limitations**

Due to the limitations inherent in any internal control, it is possible that errors or irregularities in the information presented in the Report may occur and not be detected. Our engagement is not designed to detect all weaknesses in the internal controls over the preparation and presentation of the Report, as the engagement has not been performed continuously throughout the reporting period, and the procedures were performed on a test basis.

### **Conclusion**

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Based on the procedures performed and described in this report, 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 G4 Guidelines and is free from material misstatement, is not fairly stated.

  
 Anton Ivanovich Osseov  
 JSC KPMG  
 Moscow, Russia  
 22 August 2017



### Council for Non-Financial Reporting under the Russian Union of Industrialists and Entrepreneurs

### **Conclusions of the RUIE Council for Non-Financial Reporting regarding the public assurance review of the LUKOIL Group Sustainability Report 2015-2016**

G4-33

The Council for Non-Financial Reporting under the Russian Union of Industrialists and Entrepreneurs (hereinafter, the Council), established pursuant to Resolution of June 28, 2007 of the Management Committee Bureau, has reviewed the LUKOIL Group (hereinafter, the Company, the Group, LUKOIL) 2015-2016 Sustainability Report (hereinafter, the Report) at PJSC LUKOIL's request.

The Company asked the RUIE to initiate a public assurance review by the Council, which was called upon to offer an opinion on the completeness and relevance of the information provided in the Report with regard to the Social Charter of Russian Business that contains business responsibility principles.

From August 22 to September 7, 2017, members of the Council studied the Report and drafted the present Conclusions in accordance with the Regulations for the Non-Financial Statement Public Assurance adopted by the Council. The Council members are sufficiently qualified in the field of corporate responsibility, sustainable development and non-financial reporting, abide by the ethical requirements of independence and impartiality, and express personal expert opinion rather than that of the organizations they represent.

The Report was assessed based on the following completeness and relevance criteria:

Information is considered relevant if it reflects the Company's activities to implement the principles of responsible business practice of the Social Charter of Russian Business ([www.rspp.ru](http://www.rspp.ru)).

Information is considered complete if the Company has produced a comprehensive statement on its business, including its underlying values and strategic benchmarks, as well as management systems and structures, achievements and key performance indicators, and the stakeholder engagement system.

The use of the international reporting standards by the Company is taken into account during the public assurance of the Report. The present Conclusions, however, do not seek to confirm the Report's compliance with the international reporting standards.

The responsibility for the information and statements contained in the Report lies with the Company. The public assurance does not concern itself with the veracity of factual data contained in the Report.

The present Conclusions have been drafted for the Company, which can use them for its internal corporate needs and for communication with stakeholders by publishing them without changes.

*Council for Non-Financial Reporting under the Russian Union of Industrialists and Entrepreneurs*

## CONCLUSIONS

Based on the analysis of the report, the public information on the Company's official website, and the collective discussion of the independent assessment of the Report by members of the RUIE Council for Non-Financial Reporting, the Council confirms the following:

**LUKOIL GROUP 2015-2016 SUSTAINABILITY REPORT contains relevant information on key business responsibility areas in accordance with the Social Charter of Russian Business and provides comprehensive disclosure of the Company's activities in these areas.**

**Recommendations of the RUIE Council following public assurance of the Company's 2013-2014 report were included in the 2015-2016 Report. Thus, more details were provided on the application of the Code of Business Conduct and business practice demands put forward to suppliers. The method used to determine material aspects was more clearly defined, reporting boundaries were extended to cover international assets.**

**Economic freedom and responsibility:** The Report covers the LUKOIL Group's key areas of operation, including its assets in the regions of presence. It shows the Company's industry position, the financial and economic results achieved during the reporting period, and the Group's contributions to the sustainable economic development of the Russian regions. The Report sheds light on the Company's strategic development program, its key targets and benchmarks, and the business model. There is information on the efforts taken to improve efficiency and provide stability of the Company through the introduction of cutting-edge hydrocarbon production and refinery technology and rational use of fuels including, but not limited to the development of renewable energy sources. The Report highlights the improvement of products and services, and the release of new products compliant with the environmental safety requirements. It discloses information on sustainable development management, which is being integrated into the general business strategy. The Report also describes the corporate governance system, briefly summarizes the risk management system and management approaches to the key business areas.

**Business partnership:** The Report covers the Company's business partnership practice and interaction with major stakeholder groups. The Company was reported to have adopted rules and regulations with regard to these issues. The Company is noted to be undertaking measures to improve transparency in its relations with shareholders and investors. The Report features information on the HSE improvement, employee training and development, provision of social security, staff capacity development, and youth policy implementation. The Report covers cooperation as part of social partnership. It also covers cooperation with authorities on such issues as the development of country-wide and regional economy, and on the implementation of agreements with regional and municipal administrations on social and economic cooperation. The Report contains information on measures to improve consumer satisfaction, also based on customer feedback analysis. There is information on the establishment of responsible relationships with suppliers, including the provision of transparent procurement procedures, the Company's HSE requirements that have to be complied with by the suppliers in view of the Group's applicable corporate standards. The Report also covers interaction with the indigenous minorities of the North. Information is provided on cooperation with academic and public organizations, and business associations on a wide range of issues related to the Company's activities.

*Council for Non-Financial Reporting under the Russian Union of Industrialists and Entrepreneurs*

**Human Rights:** The Report presents the Group's position in terms of compliance with labor and human rights, which, as noted, is reflected in its corporate regulations and is based on key international standards. Exercise of labor rights is disclosed in great detail in the Report. Special focus is given to the observance of employees' right to free association and collective negotiations. The Report covers the practice of entering into agreements as part of social partnership. The Report shows established employee-employer communication channels. The Report contains a statement on the respect of rights and legal interests of the indigenous minorities of the North, and covers the practice built on these principles and rules to ensure compliance.

**Environmental protection:** The Report presents the key results of the Company in environmental and industrial protection, and the related management system, which is based on international standards. Future plans have been outlined. An interrelation is observed between the Group's environmental activities and the UN Sustainable Development Goals of the 2030 Agenda for Sustainable Development. The Report covers the environmental safety program, its structure and 2014-2016 implementation results. Information is provided on the environmental impact of the Company's production activities for the most part in Russia, including air emissions, greenhouse gas emissions, water withdrawal, waste managements, and soil reclamation. Information on APG utilization is included in the Report. The adoption of a biodiversity preservation program in 2015, its measures and results are reported. Information is provided on energy resource consumption and saving, and the use of renewables.

**Participation in the local community development:** The Report provides information on the impact that LUKOIL Group's activities have had on the social and economic development in the areas of presence, including as part of the implementation of cooperation agreements with regional and municipal administrations. The Report covers the Company's policy and practice in social investment as well as the related management system. Principles of interaction with communities are said to be enshrined in corporate regulations. There is information on the LUKOIL Charity Foundation efforts, as well as efficient mechanisms and procedures of external social programs and key areas of their implementation. The Report showcases the connection between the Company's activities and the UN Sustainable Development Goals. A special annex to the Report contains more detailed information on contribution of the LUKOIL Group to the sustainable development of certain Russian regions, in which the Company operates, and on initiatives to support the local communities that the Company's subsidiaries implement in other countries of presence.

## Concluding remarks

On the whole, the information provided in the Report presents a clear picture of the LUKOIL Group's responsible business practice in the context of sustainable development goals, management system, key results of the reporting period, and the impact produced by the Company on the environment and society.

The Report features a comprehensive approach to disclosure across the key business areas, including the economic, environmental and social aspects, and contains a considerable number of performance indicators.

The Council notes that the inclusion of details on the Company's impact on sustainable development in the regions of presence increases the Report's information value to stakeholders, presents a more comprehensive picture of the Group's responsible business practice both in Russia, and in other countries, and is an example of successful disclosure on regional activities.



### *Council for Non-Financial Reporting under the Russian Union of Industrialists and Entrepreneurs*

The Report was drafted based on recommendations, standards and guidelines used in Russia and internationally (GRI G4, AA 1000SES, UN Global Compact, Social Charter of Russian Business), which ensures consistency across various reporting cycles and comparability with other companies' reports. Information is provided on the selection of material aspects, which was conducted based on views and opinions of stakeholders.

The 2015-2016 Report is the Company's seventh non-financial biennial report, which ensures consistent development of the reporting process. The Company uses various forms of independent assessment and verification of reporting information (professional audit and public assurance), thus reaffirming its responsible approach to the quality of reports. The declared intention mentioned in the Report to start producing annual reporting reflects the Company's commitment to the principles of openness and transparency.

### **RECOMMENDATIONS**

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

The Council notes that it is advisable to continue to use the recommendations made with regard to the previous reports produced by the Company in the future.

The Report compares strategic objectives of the Company in certain areas of its activities with the UN Sustainable Development Goals of the 2030 Agenda for Sustainable Development that conforms with modern global reporting practice approaches. In order to ensure greater completeness, it would be advisable to increase the number of measurable and quantitative indicators that showcase the Company's strategic benchmarks, and to provide more comprehensive information on the integration of sustainable development goals into the Company's strategy.

It should be noted that the information on operational results for the reporting period would be more complete if the actual results were compared with the planned targets, which can be used to measure the achievement level. It is also recommended to include the quantitative indicators the results will be compared to into plans for the next reporting period.

The Report features a great variety of indicators on the Company's performance, which helps provide a more detailed picture of the Company's impact on society and the environment. It should be noted that the indicator changes should be explained to ensure greater clarity. This is especially true in case drastic indicator changes take place over the reporting period, hence the description of the responsible factors (for instance, injury, air emissions, waste water discharge factors).

Information on risks, including non-financial risks, that the Company manages, is significant for, inclusively, business practice assessment, management quality and resilience assessment. It stands

### *Council for Non-Financial Reporting under the Russian Union of Industrialists and Entrepreneurs*

to reason to include the risk map in future reports in addition to links to other information sources. It is recommended that the Reports show significant changes in principal risks over the reporting period and measures taken to mitigate them.

Given the importance of the fact that stakeholders should participate in the determination of the Report's material aspects and unsolved issues pertaining to the Company's activities, future reports ought to feature the specific results of public events, including those held during the drafting of reports (hearings, stakeholder dialogues). Reports should contain information on stakeholders' expectations, and the Company's response and commitments. The balanced information principle should be used more extensively, and urgent issues should be addressed more closely.

While acknowledging the importance of the Company's decision to start producing annual sustainability reporting and supporting it, the Council recommends to draw together the release dates of these reports and annual reports, and focus on comparability of data from different sources. It is necessary to improve the collection process of data including those on environmental impact, anti-corruption efforts and procedures, and other significant issues; progress should be made to consolidate data across the Group, including Russian and international assets.

While praising the Report, supporting the Company's commitment to responsible business practice and noting reporting consistency, the RUIE Council for Non-Financial Reporting confirms that the LUKOIL Group 2015-2016 Sustainability Report has passed public assurance.

Chairman of the RUIE  
Council for Non-Financial Reporting

Deputy Chairman of the RUIE  
Council for Non-Financial Reporting



F.T. Prokopov

E.N. Feoktistova

G4-32



## About the Report (continued)

### Reporting boundaries

The information provided in the Report covers the activities of the controlled entities, where the share of PJSC LUKOIL is over 50%, in accordance with the consolidated financial reporting standards (IFRS) for 2015-2016. **G4-17**

Significant aspects of the GRI are identified in the process of identifying significant reporting topics and comparing them with the presentation of sustainable development aspects in the GRI G4 Guide (see p.3 of the Report). **G4-18**

At the same time, the reporting boundaries, in terms of some GRI aspects, are different from the specified scope, due to the specifics of the data accounting systems or the minor impact of the listed entities (see table 1). For a number of aspects, the Report includes data on the organizations outside of the scope of consolidated financial reporting (see table 2). When indicators with boundaries different from those indicated are described in the Report, information on which entities are included in the scope is indicated in the notes to the relevant statements, tables and diagrams. **G4-18**

G4-17, G4-18

### The Report contains the data on the following foreign subsidiaries:

LUKOIL-Bulgaria Bunker EOOD  
 LICARD Euro Services GmbH  
 LUKARCO B.V.  
 SOOO LUKOIL-Inter-Card-Bel  
 Grib Diamonds N.V.  
 ISAB S.r.l.  
 LAND POWER S.A.  
 LITASCO SA  
 LUKOIL Accounting and Finance Europe s.r.o.  
 Lukoil Americas Corporation  
 LUKOIL Aviation Bulgaria EOOD  
 LUKOIL Belgium N.V.  
 LUKOIL Croatia Ltd.  
 LUKOIL Energy & Gas Bulgaria EOOD  
 LUKOIL ENERGY&GAS KALUSH Ltd.  
 LUKOIL Eurasia Petrol Anonim Sirketi  
 LUKOIL ISRAEL LIMITED (Cyprus)  
 LUKOIL Italia S.r.l.  
 LUKOIL MACEDONIA LTD Skopje  
 LUKOIL MONTENEGRO DOO  
 LUKOIL Netherlands B.V.  
 LUKOIL Neftochim Bourgas AD  
 LUKOIL Overseas Uzbekistan Ltd.

LUKOIL Uzbekistan Operating Company LLC  
 LUKOIL SRBIJA AD BEOGRAD  
 LUKOIL-Azerbaijan, ZAO  
 LUKOIL-BULGARIA EOOD  
 Lukoil-Georgia Ltd.  
 LUKOIL-Moldova S.R.L.  
 LUKOR, JSC  
 Oy Teboil Ab  
 PETROTEL-LUKOIL S.A.  
 S.C. LUKOIL ENERGY & GAS ROMANIA S.R.L.  
 S.C. LUKOIL Romania S.R.L.  
 OOO KARPATNEFTEKHIM  
 TOO LITASCO Central Asia  
 IOOO LUKOIL-Belarus  
 OOO LUKOIL-NAFTOKHIM  
 LUKOIL Lubricants Central Asia LLP  
 LUKOIL LUBRICANTS EAST EUROPE S.R.L.  
 LUKOIL Lubricants Europe GmbH  
 LUKOIL LUBRICANTS UKRAINE, TOV  
 SOOO LK-NAFTAN  
 LUKOIL Technology Services GmbH  
 VARS



**Table 1**

Material aspects of GRI G4-19	Boundaries of GRI aspects: LUKOIL Group entities outside the scope of the reporting boundaries G4-20	
By all aspects <sup>1</sup> :	The Russian affiliated companies and the following Russian subsidiaries of the LUKOIL Group:	
	OAO Kamyshin TeploEnergo ZAO Arkhangelskgeolrazvedka OOO RITEK-ITC OOO SP Neftestroy OOO UTTIST OOO EPU-ITC OOO AIR OOO AERO-NEFTO OOO Donbunker OOO K.N.Holding OOO LUKOIL-AERO OOO LUKOIL-AERO	OOO LUKOIL-AERO-Domededovo OOO LUKOIL-AERO-Nizhny Novgorod OOO LUKOIL-AERO OOO LUKOIL-AERO-Samara OOO LUKOIL-AERO-Surgut OOO LUKOIL-AERO-Tyumen OOO LUKOIL-AERO-Tchelyabinsk OOO LUKOIL-Varandey-AVIA AO Novotorik Maritime Agency OOO Teplovaya generatsia g.Volzhsokogo ZAO TZK-Arkhangelsk OOO TZK Ural
ECONOMIC CATEGORY		
Presence in the markets	OOO Varandey Terminal OOO Volzhskie teplovye seti PJSC LUKOIL AO RPK-Vysotsk LUKOIL-II OOO UralOil OOO Volgodonskaya teplovaya generatsia OOO Kamyshinskaya CHP OOO LUKOIL-Kamarskaya Bulk Plant OOO LUKOIL-KNT SOOO LUKOIL-Inter-Card-Bel LITASCO SA LUKOIL Aviation Bulgaria EOOD LUKOIL Belgium N.V. LUKOIL Croatia Ltd. LUKOIL Energy & Gas Bulgaria EOOD LUKOIL Eurasia Petrol Anonim Sirketi LUKOIL MACEDONIA LTD Skopje	LUKOIL MONTENEGRO DOO LUKOIL Netherlands B.V. LUKOIL Overseas Uzbekistan Ltd. LUKOIL Uzbekistan Operating Company LLC LUKOIL SRBIJA AD BEOGRAD LUKOIL-Azerbaijan, ZAO LUKoil-Georgia Ltd. LUKOIL-Moldova S.R.L. Oy Teboil Ab S.C. LUKOIL Romania S.R.L. OOO LUKOIL-NAFTOKHIM LUKOIL Lubricants Central Asia LLP LUKOIL LUBRICANTS EAST EUROPE S.R.L. LUKOIL Lubricants Europe GmbH LUKOIL LUBRICANTS UKRAINE, TOV SOOO LLK-NAFTAN
SOCIAL CATEGORY		
Labor practices and decent work conditions		
Employment	OOO UralOil OOO LUKOIL-KNT SOOO LUKOIL-Inter-Card-Bel LUKOIL Aviation Bulgaria EOOD LUKOIL Energy & Gas Bulgaria EOOD LUKOIL Neftochim Bourgas AD LUKOIL Overseas Uzbekistan Ltd. LUKOIL Uzbekistan Operating Company LLC	S.C. LUKOIL ENERGY & GAS ROMANIA S.R.L. TOO LITASCO Central Asia LUKOIL Lubricants Central Asia LLP LUKOIL LUBRICANTS EAST EUROPE S.R.L. LUKOIL Lubricants Europe GmbH LUKOIL LUBRICANTS UKRAINE, TOV SOOO LLK-NAFTAN
Training and education	OOO Volgodonskie teplovye seti OOO Volzhskie teplovye seti OOO LUKOIL-Volgogradenergo OOO LUKOIL-Permnefteorgsintez OOO LUKOIL-Permnefteprodukt OOO LUKOIL-Ekoenergo PSJC LUKOIL OOO Rostovskie teplovye seti OOO Stavrolen OOO UralOil OOO LUKOIL-Nizhnevolzhskneft-Kalmykia OOO NK Yugraneftprom OOO Volgodonskaya teplovaya generatsia OOO Kamyshinskaya CHP LICARD Euro Services GmbH SOOO LUKOIL-Inter-Card-Bel LUKARCO B.V (group of subconsolidated reporting)	Grib Diamonds N.V. LAND POWER S.A. Lukoil Americas Corporation LUKOIL Energy & Gas Bulgaria EOOD "LUKOIL ENERGY&GAS KALUSH Ltd. " LUKOIL Overseas Uzbekistan Ltd. LUKOIL Uzbekistan Operating Company LLC LUKOR, JSC PETROTEL-LUKOIL S.A. TOO LITASCO Central Asia OOO LUKOIL-NAFTOKHIM LUKOIL Lubricants Central Asia LLP LUKOIL LUBRICANTS EAST EUROPE S.R.L. LUKOIL Lubricants Europe GmbH LUKOIL LUBRICANTS UKRAINE, TOV SOOO LLK-NAFTAN

<sup>1</sup> Note. The following entities were reorganized (by means of a spin off) in 2016 (in 2015-2016, until the re-organization, they were accounted for as part of other LUKOIL Group entities): OOO LUKOIL MarinBunker, OOO Astrakhanskije teplovye seti, OOO Volzhskie teplovye seti, OOO Teplovaya generatsia g.Volzhsokogo, OOO Rostovskie teplovye seti, OOO Volgodonskaya teplovaya generatsia, OOO LUKOIL-Reservnefteprodukt-Trading, OOO Ural-Oil

Material aspects of GRI G4-19	Boundaries of GRI aspects: LUKOIL Group entities outside the scope of the reporting boundaries G4-20	
Health and on-site safety	OOO Astrakhanskije teplovye seti OOO Varandey Terminal OOO Volgodonskie teplovye seti OOO Volzhskie teplovye seti OOO LUKOIL-Permnefteprodukt OOO LUKOIL-Ukhtaneftpererabotka PJSC LUKOIL OOO Rostovskie teplovye seti AO RPK-Vysotsk LUKOIL-II OOO UralOil OOO LUKOIL-Nizhnevolzhskneft-Kalmykia OOO NK Yugraneftprom OOO Volgodonskaya teplovaya generatsia OOO INTESMO OOO Kamyshinskaya CHP OOO LUKOIL-AVIA OOO LUKOIL-Kamarskaya Bulk Plant OOO LUKOIL-KNT OOO LUKOIL PERSONAL LUKOIL-Bulgaria Bunker EOOD LICARD Euro Services GmbH SOOO LUKOIL-Inter-Card-Bel	LUKARCO B.V (group of subconsolidated reporting) Grib Diamonds N.V. LAND POWER S.A. LITASCO SA LUKOIL Accounting and Finance Europe s.r.o. LUKOIL Aviation Bulgaria EOOD LUKOIL ISRAEL LIMITED (Cyprus) LUKOIL Overseas Uzbekistan Ltd. LUKOIL Uzbekistan Operating Company LLC LUKOIL SRBIJA AD BEOGRAD LUKOR, JSC TOO LITASCO Central Asia OOO LUKOIL-NAFTOKHIM LUKOIL Lubricants Central Asia LLP LUKOIL LUBRICANTS EAST EUROPE S.R.L. LUKOIL Lubricants Europe GmbH LUKOIL LUBRICANTS UKRAINE, TOV SOOO LLK-NAFTAN LUKOIL Technology Services GmbH (group of subconsolidated reporting) VARS
Human Rights		
The Rights of indigenous peoples and minorities	The information provided in the Report applies only to OOO LUKOIL-Komi, AO RITEK, ZAO LUKOIL AIK and OOO LUKOIL-West Siberia.	
Product responsibility		
Labeling of products and services	The oil and gas production companies where this aspect is not material	
ENVIRONMENTAL CATEGORY		
Energy	PAO Astrakhan Power Sale Company OOO Astrakhanskije teplovye seti OOO Volgodonskie teplovye seti OOO Volzhskie teplovye seti OOO LUKOIL-Engineering OOO LUKOIL-INFORM OOO LUKOIL-Permnefteprodukt OOO LUKOIL-Reservnefteprodukt OOO LUKOIL-Energoengineering OOO LUKOIL ENERGOSEVICE PSJC LUKOIL OOO Rostovskie teplovye seti OOO UralOil OOO LUKOIL-Nizhnevolzhskneft-Kalmykia	OOO NK Yugraneftprom OOO Volgodonskaya teplovaya generatsia OOO INTESMO OOO Kamyshinskaya CHP OOO LICARD (LUKOIL-Inter-Card) OOO LUKOIL-AVIA OOO LUKOIL-Kamarskaya Bulk Plant OOO LUKOIL-Nizhegorodniinefteproekt OOO LUKOIL-RAO Volgograd OOO LUKOIL-RAO Perm OOO LUKOIL-TSUR AO LUKOIL Chernomorje OOO LUKOIL PERSONAL
	All LUKOIL Group's foreign subsidiaries, except for:	
	LUKOIL Energy & Gas Bulgaria EOOD LUKOIL Neftochim Bourgas AD LUKOIL Uzbekistan Operating Company LLC	PETROTEL-LUKOIL S.A. S.C. LUKOIL ENERGY & GAS ROMANIA S.R.L. OOO LUKOIL-NAFTOKHIM

**Material aspects of GRI G4-19** **Boundaries of GRI aspects: LUKOIL Group entities outside the scope of the reporting boundaries G4-20**

Biodiversity	All LUKOIL Group's foreign subsidiaries, along with: AO ARKHANGELSKGEOLDOBYCHA PAO Astrakhan Power Sale Company OOO Astrakhanskije teplovyje seti OOO Volgodonskie teplovyje seti OOO Volzhskie teplovyje seti OOO LLK International OOO LUKOIL-AERO OOO LUKOIL-BUNKER OOO LUKOIL-Volganefteprodukt OOO LUKOIL-Engineering OOO LUKOIL-INFORM OOO LUKOIL-Permnefteprodukt OOO LUKOIL-Ukhtaneftepererabotka OOO LUKOIL-Chernozemyenefteprodukt OOO LUKOIL-Rezervnefteprodukt OOO LUKOIL-Energoengineering OOO LUKOIL ENERGOERVICE	PSJC LUKOIL OOO Rostovskie teplovyje seti OOO UralOil OOO LUKOIL-Nizhnevolzhskneft-Kalmykia OOO NK Yugraneftprom ZAO TURSUNT OOO Volgodonskaya teplovaya generatsia OOO INTESMO OOO Kamyshinskaya CHP OOO LICARD (LUKOIL-Inter-Card) OOO LUKOIL-AVIA OOO LUKOIL-Nizhegorodniefteproekt OOO LUKOIL-RAO Volgograd OOO LUKOIL-RAO Perm OOO LUKOIL-TSUR AO LUKOIL Chernomorje OOO LUKOIL PERSONAL
Water Emissions Discharges and waste General information	All LUKOIL Group's foreign entities, along with: PAO Astrakhan Power Sale Company OOO Astrakhanskije teplovyje seti OOO Volgodonskie teplovyje seti OOO Volzhskie teplovyje seti OOO LUKOIL-BUNKER OOO LUKOIL-Engineering OOO LUKOIL-Permnefteprodukt OOO LUKOIL-Rezervnefteprodukt OOO LUKOIL-Energoengineering OOO LUKOIL ENERGOERVICE PSJC LUKOIL OOO Rostovskie teplovyje seti OOO UralOil OOO LUKOIL-Nizhnevolzhskneft-Kalmykia	OOO NK Yugraneftprom ZAO TURSUNT OOO Volgodonskaya teplovaya generatsia OOO INTESMO OOO Kamyshinskaya CHP OOO LICARD (LUKOIL-Inter-Card) OOO LUKOIL-AVIA OOO LUKOIL-Nizhegorodniefteproekt OOO LUKOIL-RAO Volgograd OOO LUKOIL-RAO Perm OOO LUKOIL-TSUR AO LUKOIL Chernomorje OOO LUKOIL PERSONAL

**Table 2**

GRI aspect	List of the entities out of scope of the financial reporting but included into the boundaries of this Report	
<b>ECONOMIC CATEGORY</b>		
Presence in the markets	MRO Baltijskoye Burgasnefteproekt LUKOIL-TTK PII LUKOIL-Ukraine	LLK International Balkanskoye MRO Eurasian MRO East-European MRO
<b>SOCIAL CATEGORY</b>		
<b>Labor practices and work conditions</b>		
Employment	Burgasnefteproekt OOO LUKOIL-TTK PII LUKOIL-Ukraine	LLK International LUKOIL EESTI AS
Training and education	Burgasnefteproekt OOO LUKOIL-TTK LLK International Region 1 Overseas MRO "Middle East and Asia" Region 2 Overseas MRO "West Africa, Europe and America"	Upstream development Region 3 ZAO LUKOIL Baltija, Lithuania OOO LUKoil Baltija R, Latvia Lukoil Polska Sp.z.o.o.
Health and on-site safety	LUKOIL Cyprus PII LUKOIL-Ukraine LUKOIL EESTI AS	ZAO LUKOIL Baltija, Lithuania OOO LUKoil Baltija R, Latvia Lukoil Polska Sp.z.o.o.
<b>ENVIRONMENTAL CATEGORY</b>		
Water Emissions Discharges and waste General information	OOO LUKOIL-TTK RPK Atrakhansky transport hub Volgograd transport hub	Nizhny Novgorod transport hub Perm transport hub
Biodiversity	OOO LUKOIL-UNP	PII LUKOIL-Ukraine

**Basic terms and notions**

Stakeholders are individuals and legal entities that either influence the Company's performance or are influenced by the Company.

Corporate social responsibility (CSR) implies the responsibility assumed by the company for the impact produced by its decisions and activities on the society and environment through transparent and ethical conduct, which contributes to sustainable development, including health and welfare of the society; considers the expectations of stakeholders; complies with the applicable legislation and international codes of conduct; is integrated into all of the company's operations and applied to its relations (GOST R ISO 26000-2012).

Sustainable development is the global community development concept put forward by the United Nations during the Earth Summit held in Rio de Janeiro in 1992. Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland Commission, 1987).

Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development is a UN document that contains 17 global goals to end all forms of poverty, preserve the planet's resources, and promote the general welfare of the people. Each of the 17 Goals implies a number of indicators to be attained within 15 years through the complementary efforts of governments, businesses, the civil society and the tellurians.

**Abbreviations**

**The LUKOIL Group** stands for PJSC LUKOIL and its subsidiaries and affiliates  
**Subsidiary, company** stands for PJSC LUKOIL subsidiary  
**The LUKOIL Group entities** stand for PJSC LUKOIL and its subsidiaries and affiliates  
**IATUO** stands for the International Association of Trade Union Organizations of PJSC LUKOIL

**Names of subsidiaries**  
**LUKOIL-KMN** stands for OOO LUKOIL-Kaliningradmorneft  
**LUKOIL-UNP** stands for OOO LUKOIL-Ukhtaneftepererabotka

**PFS** stands for petrol filling station  
**FFS** stands for fuel filling station  
**CPI** stands for RUIE core performance indicators  
**BRICS** stands for Brazil, Russia, India, China and the Republic of South Africa  
**Renewables** stand for renewable energy sources  
**WPS** stands for wind power station  
**POL** stands for petroleum, oil and lubricants  
**HPP** stands for hydroelectric power plant  
**GC** stands for UN Global Compact  
**VMI** stands for voluntary medical insurance  
**CSA** stands for capacity supply agreement  
**RTA** stands for road traffic accidents  
**PA** stands for polluting agents  
**IMS** stands for information management system  
**IMN** stands for indigenous minorities of the North  
**KPI** stands for key performance indicators

**CSR** stands for corporate social responsibility  
**EOSE** stands for emergency oil spill elimination  
**ICC** stands for international children's center  
**ILO** stands for International Labor Organization  
**IFRS** stands for International Financial Reporting Standards  
**EMERCOM** stands for the Ministry of the Russian Federation for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters.  
**NAA** stands for Nenets Autonomous Area  
**R&D** stands for research and development  
**NPO** stands for non-profit organization  
**ORP** stands for refinery (oil refinery plant)  
**NPF** stands for non-state pension fund  
**OMD** stands for Oil Mines Division  
**EI** stands for environmental impact  
**UN** stands for United Nations Organization  
**NE** stands for (natural) environment  
**HSE** stands for health, safety and environment  
**SGP** stands for steam gas plant  
**APG** stands for associated petroleum gas  
**ORP** stands for refinery (oil refinery plant)  
**VFD** stands for Volga Federal District  
**IEC** stands for industrial environmental control  
**RAS** stands for Russian Academy of Science  
**RUIE** stands for Russian Union of Industrialists and Entrepreneurs  
**PPE** stands for personal protective equipment  
**NCFD** stands for North Caucasian Federal District  
**MM** stands for mass media



**APC** stands for agricultural production cooperative  
**DMA** stands for Disclosures on Management Approach  
**LPG** stands for liquefied petroleum gas  
**RM & ICS** stands for Risk Management and Internal Control System  
**SP** stands for solar park  
**FC** stands for fueling complex  
**TMF** stands for territorial manufacturing facility  
**HTR** stands for hard-to-recover reserves  
**TPP** stands for thermal power plant  
**CHP** stands for combined heat and power station  
**UFD** stands for Urals Federal District  
**HELCOM** stands for Helsinki Commission  
**KMAA-Yugra** stands for Khanty-Mansi Autonomous Area – Yugra

#### Units of measurement

**GW** Gigawatt is a unit of measurement used to measure electric power (1 gigawatt = 1,000 megawatt).  
**GJ** Gigajoule is a unit of measurement used to measure work, energy and quantity of heat  
**GCal** Gigacalorie is a unit of measurement used to measure thermal energy.  
**GCal·h** Gigacalorie/hour is a unit of measurement used to measure heating capacity.  
**kW·h** Kilowatt-hour is a unit of measurement used to measure energy output.  
**MW** Megawatt is a unit of measurement used to measure electric power.  
**TCE** Ton of coal equivalent is a unit of measurement used to measure fuel equal to one ton of coal in terms of its energy value.

**SDG** stands for Sustainable Development Goals  
**CFD** stands for Central Federal District  
**FAS** stands for Federal Antimonopoly Service  
**NGL** stands for natural gas liquids  
**SFD** stands for Southern Federal District  
**YNAA** stands for Yamal-Nenets Autonomous Area  
**CDP** stands for Carbon Disclosure Project  
**EBITDA** stands for Earnings before Interest, Taxation, Depreciation & Amortisation  
**GRI** stands for Global Reporting Initiative  
**MBA** stands for Master of Business Administration  
**WWF** stands for World Wildlife Fund

## Contact Information on the Report G4-31

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.

**G4-31**



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