



LUKOIL

**LUKOIL GROUP
SUSTAINABLE
DEVELOPMENT
OF THE RUSSIAN
REGIONS AND
CORPORATE SOCIAL
RESPONSIBILITY
PRACTICES IN
INTERNATIONAL
ASSETS. 2015–2016**



CONTENTS

- 04 Northwestern Federal District
- 18 Volga Federal District
- 36 Urals Federal District
- 48 Southern and North Caucasian Federal Districts
- 64 Central Federal District

SUSTAINABLE DEVELOPMENT OF THE RUSSIAN REGIONS

02



CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN INTERNATIONAL ASSETS

68

- 70 Upstream
- 78 Refining
- 82 Petroleum product supply
- 84 Lubricant production and sale

SUSTAINABLE DEVELOPMENT OF THE RUSSIAN REGIONS



04
Northwestern Federal District

18
Volga Federal District

36
Urals Federal District

48
Southern and North Caucasian Federal Districts

64
Central Federal District

Over the ten years of preparing and publishing non-financial reports, the operations of its subsidiaries in the Russian regions have been a special focus for LUKOIL. Each report provided an overview of the most important developments in the way the Company's facilities operate, implement social projects, and take steps to improve the environment. There are a number of reasons that underpin this approach. Russia is home to the Company's key assets and the place where its productive, natural, intellectual, and social capital is best utilized. Hence, in addition to showing how these types of capital help create added value, the report also outlines how the value is distributed.



> 60
regions

presence of the LUKOIL Group assets in Russia

The key stakeholder groups in the Russian regions that the Company is in constant dialog with include:

- administrations of over 60 regions in six federal districts and a variety of municipalities with which LUKOIL liaises as part of its comprehensive development plans;
- people who live near the Company's facilities and work there;
- clients, partners, suppliers and contractors, NGOs and municipal organizations that the Company has business relations with.

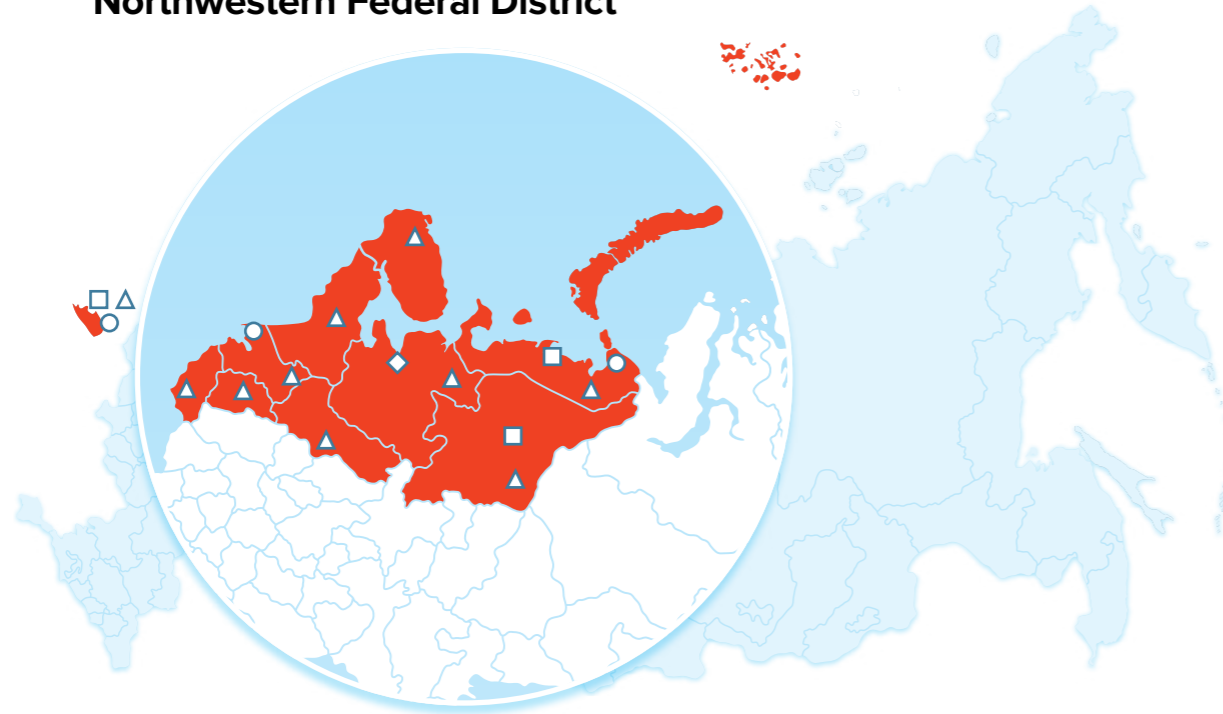
The Company identifies matters that stakeholders view as important for their respective region, and strives to respond to them through this report, environmental activities, and social programs.

For the first time ever, this report contains management approaches and corporate social responsibility projects of some of the Company's foreign assets.

A reliable partner and investor in its regions of presence, LUKOIL has always been honoring its day-to-day commitments while also paving the way for success in the future.



Northwestern Federal District



□	△	○	◇
Upstream	Downstream	Midstream	Other
OOO LUKOIL-Kaliningradmorneft OOO LUKOIL-Komi	OOO LUKOIL-Ukhtaneftepererabotka OOO LUKOIL-Severo-Zapadnefteprodukt OOO LUKOIL-BUNKER (Murmansk and Kaliningrad branches) OOO LUKOIL-AERO OOO LUKOIL-Volganefteprodukt	OOO Varandey Terminal OOO LUKOIL-Complex Oil Terminal OOO RPK-Vysotsk-LUKOIL-II ¹	AO ARKHANGELSK-GEOLDOBYCHA ²

ECONOMIC ROLE AND INVESTMENTS

The Company's strategy in the region aims to increase oil production, improve utilization of associated petroleum gas (APG), ramp up the share of higher added value products at the Company's refineries, and develop the filling station network.



¹Starting from June 2017 – AO RPK-Vysotsk LUKOIL-II.

²In May 2017, an agreement was signed to sell 100% of AO ARKHANGELSKGEOLDOBYCHA to Otkritie Holding. G4-13

Achieved

- Production of high-viscosity oil in the Timan-Pechora Province increased by 9% as a result of development of the Yaregskoye field and the Permian-Carboniferous deposit of the Usinskoye field.
- Production at the fields of the Denisovskaya Depression in the Timan-Pechora Province went up by more than 20%
- Actual APG utilization rate at OOO LUKOIL-Komi reached 83.7%. The APG from the Northern cluster of fields is also supplied to Gazprom's Sosnogorsky Processing Plant
- A 24/7 hotline was launched for everyone wishing to help OOO LUKOIL-Komi improve its environmental activities

Planned

- Increase the recovery potential for high-viscosity oil by using new technologies, and continue adding new volumes of high-viscosity oil output
- Continue developing offshore projects in the Baltic Sea
- Continue improving APG utilization to 95%.
- Commission the Yarega generation facility in the Ukhta District of the Komi Republic in 2017
- Enhance interaction with local residents and the environmental community on matters related to environmental protection

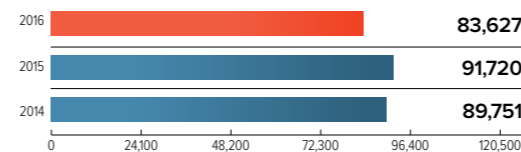


A hotline

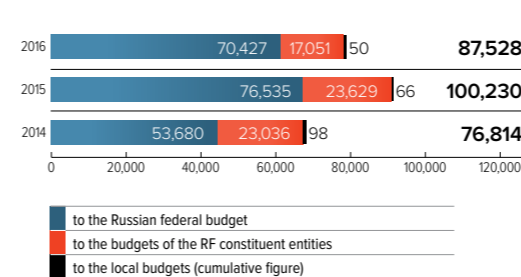
was launched in 2016 for those wishing to ask OOO LUKOIL-Komi about its environmental activities

Key Economic Performance Indicators

Investments, million RUB

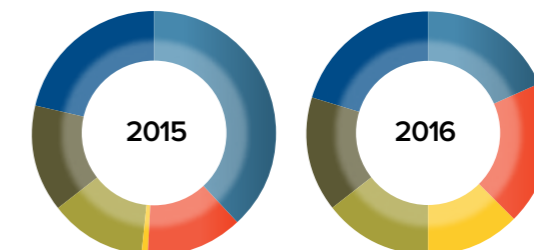


Total taxes paid, million RUB



Note. Includes taxes paid by LUKOIL Group entities incorporated as legal entities in the federal district under the applicable law.

Socially significant projects/ facilities costs, %



	2015	2016
Social support for population. Orphanages, boarding schools, schools and other childcare centers	38	19
Education	13	19
Healthcare	1	13
Centers of science, art, culture	13	14
Physical training/Sports facilities	14	15
Social and Cultural Projects Contest	21	20

Upstream

The Komi Republic and NAA

In terms of hydrocarbons production, OOO LUKOIL-Komi has been the second largest LUKOIL Group company in Russia for many years. 90% of oil is produced in the Nenets Autonomous Area (NAA) and the Usinsk and Pechora Districts of the Komi Republic. The Company is developing a total of 65 fields (in 2017, these include 58 license blocks in the Komi Republic and 29 license blocks in NAA). In 2015, a new field named after Andrey Alabushin, an employee of OOO LUKOIL-Komi, was commissioned, and licenses were obtained to operate at three sites in both regions. Four fields were commissioned in 2016.

The proved reserves of high-viscosity oil being developed by the Company are located mainly in two fields: Yaregskoye and Usinskoye. To develop these, thermal oil recovery methods are used (comparable to those currently being used in Canada in shale oil production). Also, AO RITEK uses these fields to test its proprietary technology of steam-gas treatment of bottomhole formation zones.

The Kaliningrad Region

OOO LUKOIL-Kaliningradmorneft is developing 26 oil fields, including 25 onshore fields and one offshore field in the Baltic Sea. In 2015, offshore exploration resulted in the discovery of two fields, including the largest one in the Baltic Sea (potentially twice as large as D-6, which is currently under development). Its development is scheduled to begin in 2017.

A single project office was set up to manage the fields, and a unified concept for the development of the Baltic Sea fields is currently being prepared.

When in active stages, further offshore development projects in the Baltic Sea are likely to require a lot of personnel, helping to create new jobs in the region. In 2017, the project office in the Kaliningrad Region alone is expected to create 19 high tech jobs for trained professionals. The growth in the number of personnel and the potential increase in production volumes will increase tax contributions to both federal and regional governmental budgets, as well as create an additional demand for high-tech products of Russian suppliers in the Kaliningrad region.



90%
of oil

is produced by the Group in the Nenets Autonomous Area (NAA), and the Usinsk and Pechora Districts of the Komi Republic

Projects in the Komi Republic and NAA

Yaregskoye field	<ul style="list-style-type: none"> In 2014, the Yarega-1 project was launched and, within the framework of which 25 new production facilities will be built. In 2015, several steam generating units were commissioned with a total capacity of 775 tons of steam per hour, including units running on APG. In 2016, the Company launched a water treatment unit unprecedented in Russia: water that was previously pumped into a reservoir is now treated and used for steam generation. This will completely eliminate the need to use natural resources (rivers and lakes) for water consumption. In 2016, the Yarega facility for the treatment and gathering of oil was commissioned to transport commercial oil to the main pipelines of Transneft.
The Usinskoye Field	<ul style="list-style-type: none"> In 2016, the first stage of the Usa generating facility (100 MW) was commissioned. It ensures energy independence for production sites and helps improve APG utilization rates at in-house generation facilities. The field relies mostly on Russian equipment, with innovative technologies used across all stages of construction
The Vostochno-Lambeysorskoye field "Denisovskaya Depression"	<ul style="list-style-type: none"> This is a technologically challenging project, as the hydrocarbons have a high hydrogen sulfide content. In 2016, the construction of gas desulfurization and sulfur granulation facilities was completed at the Vostochny Lambeyshor oil treatment unit as a way to achieve 100% utilization of hydrogen sulfide and produce granulated sulfur for the chemical industry

Midstream

LUKOIL has a unique transportation system, the main links of which are: the northernmost Varandey marine oil terminal, RPK-Vysotsk-LUKOIL-II terminal, which ships petroleum products only, and the Complex Oil Terminal at the port of Svetly in the Kaliningrad Region.

About 20 million tons of oil and petroleum products are shipped out from these three terminals every year, requiring more than 115 tankers. The Varandey terminal alone shipped 8 million tons of oil in 2016, or approximately 10 tankers a month.

In terms of equipment and technologies, the terminals are among the world's most innovative. During operations, an emphasis is placed on environmental and industrial safety. There are annual drills in place to respond to spills of oil and petroleum products. In 2016, the Varandey terminal was a remote participant of the "Arctic Days" forum, held under the auspices of the Ministry of Natural Resources and Environment.



8
million tons
of oil

were shipped from the Varandey terminal in 2016

In the village of Varandey in the summer of 2016, comprehensive training exercises took place to localize and neutralize a fictitious oil spill at sea and to protect and clean the coastal strip of the village from "pollution".

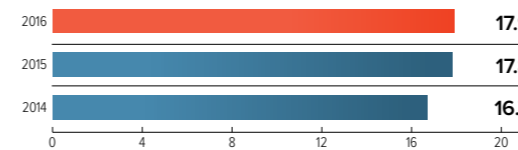
In the scenario of the exercise, the "Kapitan Gotsky" tanker lost control and collided with a service ship near the fixed marine ice-resistant shipping berth of OOO Varandey Terminal in the Pechora Sea. The hull of the tanker was damaged, resulting in a loss of pressure in the tank and a spill of 5,000 tons of oil.

To assess the scale of the "spill", OOO Ecoshelf Baltika, a professional emergency response and rescue team, was engaged. The Varandey terminal requested additional resources and funding from OOO Gazprom Neft Shelf, the operator of the Prirazlomnaya platform. The Company's management responded by sending in a multi-purpose salvage vessel, the "Murman", equipped with Lamor LSC, an onboard oil recovery system. The Main Directorate of the Ministry for Emergency Situations (EMERCOM) in NAA commented that all participants did well in the exercise.

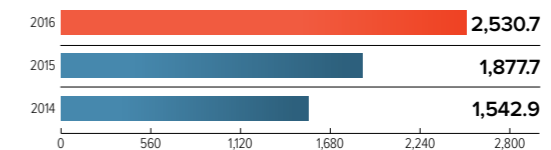
Key Operational Indicators

Production of raw hydrocarbons (OOO LUKOIL-Kaliningradmorneft, OOO LUKOIL-Komi)

Oil production, million tons



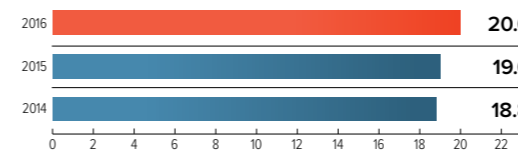
Production of natural and associated petroleum gas, million cubic meters



653
million cubic
meters

increase in the natural and associated gas production in 2016

Oil transshipment (AO RPK-Vysotsk LUKOIL-II, OOO Varandey Terminal, OOO LUKOIL Kompleksny Neftyanoy Terminal), million tons



Source: Company data.

Downstream

OOO LUKOIL-Ukhtaneftepererabotka is one of the oldest refineries in the industry – and also Russia's northernmost one. The plant relies on three principles of its development strategy: safety, profitability, and sustainable development. Following an upgrade program, the refinery is gradually transitioning from heavy to light oil as feedstock, effectively contributing to a higher conversion rate and the production of products with higher added value. The Company is committed to upgrading the refinery further and plans to continue its programs to increase energy efficiency and environmental safety.

OOO LUKOIL-BUNKER focuses on bunker fuel supplies in marine and river ports across six Russian regions and is also engaged in wholesale supplies of bunker fuel. The Company operates its own bunkering fleet (18 tankers) and leased tankers.

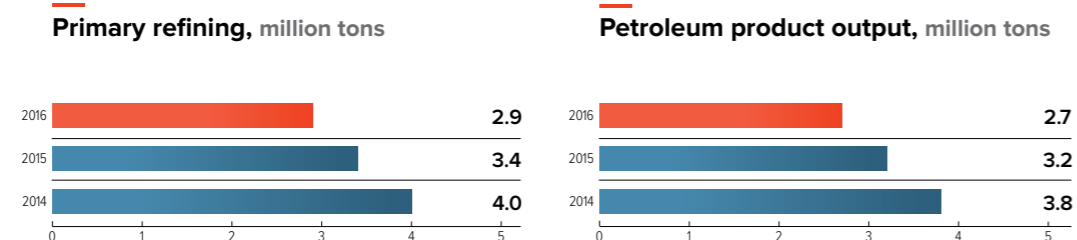


"It's a great place to stop for a break on the road. It's bright, cozy and quiet. The coffee is one of the best I've ever tried. I mean it. And they also offer traditional Vologda souvenirs. A great idea! That's what I think as a tourist. On top of that, the staff are pleasant and courteous, and there's fairly good ice-cream and free (!) maps with travel tips about the Vologda Region. Straight A's! It's a filling station not to be missed. Exactly what you need on the roads across Russia's vast distances. Civilization is what I call it!"

Vasily Nikitinsky,
online journalist

Key Operational Indicators

Feedstock processing and output of products OOO LUKOIL-Ukhtaneftepererabotka



Source: Company data.

The key priorities for filling stations in the federal district are improving the technological infrastructure, enhancing customer experience, and expanding the range of services on offer.

In 2015, OOO LUKOIL-Severo-Zapadnefteprodukt introduced the automated supply of petroleum products to 132 filling stations in Saint Petersburg and the Leningrad Region, 8 stations in the Pskov Region, and 20 stations in the Kaliningrad Region. In 2016, the number of such filling stations increased to 175.

OOO LUKOIL-Volganefteprodukt pays a lot of attention to maintaining the quality of its petroleum products throughout the supply chain, from the bulk plant to the filling station. To this end, a regional chemical analysis laboratory in the Volgograd Region carries out quality control tests, issues certificates for storage tanks and analyzes samples taken from the tanks of filling stations and bulk plants.

As part of the "LUKOIL – Civilization" press tour organized by OOO LUKOIL-Volganefteprodukt in 2015, journalists and automotive bloggers visited the Company's filling stations on their route from Nizhny Novgorod to Vologda. The participants praised the construction of the multi-purpose roadside filling stations currently being rolled-out by LUKOIL. Facilities include: filling stations, "Full-Service" cafes, parking for trucks, tyre fitting shops, and a car parts stores.



Presence of LUKOIL's Filling Stations in the Region

Area	2014	2015	2016
OOO LUKOIL-Volganefteprodukt			
Vologda Region	60	61	61
OOO Severo-Zapadnefteprodukt			
Arkhangelsk Region	20	21	22
Kaliningrad Region	32	29	31
Murmansk Region	7	7	8
Novgorod Region	12	13	12
Pskov Region	9	9	9
Saint-Petersburg and Leningrad Region	148	146	147
Karelia Republic	8	8	9
Komi Republic	64	55	56
NAA	–	–	3
Total	300	288	358

Environmental Protection

G4-14



Key Environmental Measures

OOO LUKOIL-Trans, which has facilities operating in Russia's Arctic zone¹, puts special emphasis on minimizing its environmental impact. To this end:

G4-14

- public hearings were held and the approval of the State Environmental Inspection was received with respect to the EOSE Plan of the Varandey Terminal;
- the risk of permafrost degradation at the site of the onshore tank farm of the Varandey Terminal has been minimized;
- monitoring of the terminal's offshore and onshore parts and the local mammal and bird populations. According to the results of this monitoring, the tank farm and the shipping berth have no negative environmental impact;
- industrial environmental control activities carried out.

THE KEY PRINCIPLE FOLLOWED BY THE LUKOIL MANAGEMENT IS TO MAINTAIN AN ENVIRONMENTAL AND ECONOMIC BALANCE OF PRODUCTION, ENVIRONMENTAL SAFETY, AND THE BEST PRACTICES EMPLOYED BY THE GLOBAL OIL AND GAS PLAYERS.



Water resource management

Alongside environmental protection efforts as part of the corporate Environmental Safety Program, subsidiaries are also involved in regional campaigns and initiate their own activities.

OOO LUKOIL-Komi is implementing an action plan to rehabilitate the Maly Voyvozh Creek and the rivers of Yarega, Ukhta, and Izhma. On the Maly Voyvozh Creek, the coastline was cleaned and biological remediation was carried out, with fertilizers applied and new grasses planted. The activities were accepted by the authorized committee of the Komi Republic. In 2017, there are plans to commission a permanent hydrolock at the Maly Voyvozh Creek and new treatment facilities at the Yarega field. The water resources are subject to environmental monitoring and water sampling.



In 2017

new treatment facilities at the Yarega field will be commissioned

Biodiversity Preservation

The project to restore the numbers and species composition of biological resources in northern rivers is part of OOO LUKOIL-Komi's environmental program and has been in place for more than 10 years. To date, more than 1.1 million juvenile whitefish and grayling have been released, with an average of around 100,000 fish released every year.



> 1.1 million

juvenile whitefish and grayling have been released into northern rivers over the decade

¹ The Arctic zone of the Russian Federation means the territory of the Arctic Region where Russia has sovereign rights and jurisdiction and which includes:
a) territories (or parts of territories) of Russian constituent entities;
b) lands and islands that have been or can be discovered in the future and are located in the Arctic Ocean to the north of the coast of the Russian Federation and up to the North Pole;
c) inland and territorial waters of the Russian Federation adjacent to the territories listed in a) and b) above;
d) exclusive economic zone and continental shelf of the Russian Federation adjacent to the territories, listed in a) and b) above, within the sovereign rights and jurisdiction of the Russian Federation;
e) airspace above the territories and waters listed in a) to d) above. (Draft Federal Law "On the Development of the Arctic Zone of the Russian Federation").

Environmental campaigns

During the reporting period, LUKOIL’s employees took part in “River Ribbon”, a civic campaign to clean the coastlines of rivers and lakes, and in “Green Land”, a corporate environmental project dedicated to the 25th anniversary of the Company.

In 2015 and 2016, OOO LUKOIL-Volganefteprodukt participated in the project “ECOLOGICAL Culture in the Vologda Region. Take a Look Inside Yourself”, which is implemented by ROSSOYUZSPAS in order to improve environmental awareness among the general public and make the region more attractive to tourists. The project involved the local youth as volunteers. A number of filling stations in the region (No. 12, 21, 41, and 19) put up information for their visitors about places to stay and sights located alongside the Vologda–Medvezhyegorsk federal highway.

Since 2015, 12 filling stations of OOO LUKOIL-Volganefteprodukt in the Vologda Region have been practicing separate waste collection as a way to reduce their environmental footprint.

Support from OOO LUKOIL-Severo-Zapadnefteprodukt helped open the “Alley of Russia” in Petrozavodsk as part of a national campaign to plant trees that symbolize different Russian regions. Karelia is symbolized by the birch.

In 2015 and 2016, OOO LUKOIL-Kaliningradmorneft continued its ongoing environmental campaign, “March of Parks”. Every spring, the Council of Young Professionals and young employees volunteer for cleanup campaigns at the Curonian Spit National Park to help clean up beaches, repair walking trails and signboards, and put up new fencing. Also, the Council of Young Professionals holds annual urban planting campaigns for municipalities.

Relations with the Environmental Community and Local Residents



OOO LUKOIL-Komi launched a 24/7 hotline for everyone wishing to help the Company improve its environmental activities. Local residents can ask questions about the Company’s environmental efforts and construction projects, submit their ideas for improvement, or leave a complaint. The new hotline proves that the Company is open and committed to engaging in purposeful dialog with the environmental community, the residents of Russian regions, and regulatory bodies.

In 2015, the city of Usinsk (in the Komi Republic) hosted a round table titled “Key Environmental Challenges in the Komi Republic: Setting Targets and Moving Towards Solutions”, which was initiated by OOO LUKOIL-Komi. It brought together representatives of the executive branch of government, municipalities, oil companies, NGOs, scientists, and experts. The participants visited the Bayandyskoye field to review the Company’s production facilities.



12

filling stations

in the Vologda Region have been practicing waste sorting since 2015

Social Programs and Projects

Partnerships with the Areas of Presence

In its areas of presence, the Company signs agreements on social and economic cooperation. LUKOIL honors all its obligations as per the timeline and volumes set forth by the agreements.

In 2015, PJSC LUKOIL and the Government of the Komi Republic signed a new Cooperation Agreement, lasting until 2019, which saw the level of funding considerably increased in 2016. A new direction within the framework of the Agreement was cooperation in developing the Republic’s R&D capacities, carrying out scientific research, and providing grants for R&D and new engineering applications. Under the Agreement, a working group with oversight functions was set up and a procedure of interaction was developed to make the best use of funds dedicated to socially important projects.

As part of an agreement in NAA, the Company committed to supplying fuels and lubricants to companies and individuals in the region, respecting the rights of the indigenous minorities of the North, and, where possible, increasing the sourcing of services from local organizations (rescue teams, airlines, healthcare providers, etc.).

The agreement signed with the Government of the Vologda Region identifies the following priorities:

- further development and enhancement of the fuel and energy sector;
- sustainable supplies of petroleum and petrochemical products to consumers;
- social stability, environmental improvements, etc.

In 2016, a Cooperation Agreement was signed between PJSC LUKOIL and the Government of the Kaliningrad Region. The Cooperation Agreement between PJSC LUKOIL and the Government of the Leningrad Region also remained in force during the reporting period.



All

obligations as per agreements are met by LUKOIL in full and on time

Discharge of obligations assumed under agreements with Russian regions (examples) G4-EC7



The Komi Republic	<ul style="list-style-type: none"> • Financing was provided for the refurbishment of community centers, hospitals, kindergartens and schools. 21 school buses were purchased and new playgrounds for children were installed. • Textbooks were procured for secondary school No. 2 of Ukhta and equipment purchased for City Polyclinic No. 2 of Yarega settlement, City Hospital No. 1 of Ukhta, and the Children’s Hospital of Ukhta. • In the Ust-Tsilma District, two local schools were supported in purchasing tractors to provide vocational training tailored to rural needs; two rural kindergartens and three schools were renovated. • In Pechora, equipment and multimedia equipment was purchased for a children’s sports school and Orphanage No. 17, respectively. In Vuktyl, Secondary School No. 1, Central District Hospital and Center for Therapy and Rehabilitation of War Veterans were renovated. In Sosnogorsk, new equipment was installed at the Gorizont community center. • Oil skimming equipment was donated to the Komi Republic to be used in oil spills if local oil producers require additional resources to quickly respond to emergencies
Leningrad Region	<ul style="list-style-type: none"> • Projects are underway to build new and upgrade existing facilities to transport and store oil and petroleum products; the filling station network is being expanded. A petroleum product pipeline from the Primorsk port to the Vysotsk terminal was built, along with 12 filling stations and a bitumen storage facility
Nenets Autonomous Area	<ul style="list-style-type: none"> • Key areas of cooperation: supporting indigenous populations, organizing the diagnosis and treatment of special needs children, funding social infrastructure and constructing housing. • Construction and maintenance of the Naryan-Mar–Usinsk winter road. • During the reporting period, a medical checkup was provided for people living in tundra regions (as part of the “Red Rawhide” project) and an annual festival titled “The Days of Classical Music in the Arctic” was organized; the construction of the “House of Crafts” in Krasnoye, and a research laboratory and an indoor tennis court in Naryan-Mar was underway

G4-EC7

Discharge of obligations assumed under agreements with Russian regions (examples) G4-EC7

- The Kaliningrad Region**
- In the Guryevsk city district, the construction of a rural healthcare center is underway and equipment is being provided for children's playgrounds in settlements, a school, community center, and kindergarten No. 23 in Guryevsk.
 - In the Gvardeysk city district, support was provided to the Gvardeysk Museum of History and Culture and uniforms and equipment were purchased for the Olympia football club.
 - In the Zelenogradsk city district, an international festival was held at a community center and construction of sports facilities in Zelenogradsk is underway.
 - In the Krasnoznamensk city district, cultural and educational programs were organized and support was provided to the district union of people with disabilities.
 - In the Svetlovsky city district, urban improvement was carried out, drain water facilities were set up, the "City Day" and "Fisherman Day" events were held, and support was provided to sports schools and sports clubs for children.
 - In 2016, the Baltic Fleet and OOO LUKOIL-KMN signed a cooperation agreement, which will see the Company provide corporate assistance to the Steregushchy corvette in its preparations for maritime campaigns, improving equipment, cultural exchange between the Company and the Fleet, and the military and patriotic training of the crew.

Charitable activities

- Charitable activities of OOO LUKOIL-Severo-Zapadnefteprodukt**
- The Company has traditionally supported major cultural events:
 - "The Imperial Gardens of Russia", an international festival organized by the State Russian Museum,
 - a charitable concert of brass music in Saint Isaac's Cathedral (Saint-Petersburg),
 - and the "Crescendo" music festival in the Pskov Region.
 - In the Novgorod Region, funding was provided to organize celebrations marking the 1,000th anniversary of the town of Staraya Russa. Financing was provided to SKA hockey school for trips to tournaments and ice resurfacing equipment.
 - Support was provided to the Gennady Romanov Children's Rehabilitation Center, which uses unique proprietary treatment methods.
 - To mark the 70th anniversary of the Great Patriotic War (WWII), support was provided to redevelop the site of the Grove of the 500 war memorial in the Kingisepp District of the Leningrad Region. More than 200 war veterans in Saint-Petersburg, the Leningrad, Pskov and Novgorod Regions and the Komi Republic received gifts. As usual, the Company participated in the "Ribbon of Saint George" countrywide gathering before Victory Day.
- Charitable activities of OOO LUKOIL-Volganefteprodukt in the Vologda Region**
- For many years, the LUKOIL Charity Foundation and OOO LUKOIL-Volganefteprodukt have been acting as trustees of the Veliky Ustyug Orphanage. In 2015, the orphanage opened its own multi-purpose sports ground.
 - Regular assistance is provided to the Vologda branch of the Russian Children's Fund, which works with children who require medical treatment



The Company traditionally supports

major cultural events: "The Imperial Gardens of Russia", an international festival organized by the State Russian Museum

Social and Cultural Projects Contest

In 2015 and 2016, OOO LUKOIL-Komi and the LUKOIL Charity Foundation held the Social and Cultural Projects Contest in four Russian regions within the federal district.



"The Company is building an environment that fosters activism in citizens to enable them to tackle and solve their problems. This is very important, and we share the same vision here. I would describe this kind of support as social investment in the region. These include investing in the health, education, and professional and personal growth of our residents."

Igor Koshin,
Governor of NAA

Contest results

Contest operator	Number of projects				Coverage area
	2015		2016		
	submitted	winners	submitted	winners	
OOO LUKOIL-KMN and LUKOIL CF	97	17	191	27	Kaliningrad Region
OOO LUKOIL-Komi and LUKOIL CF	90	15	90	35	The Komi Republic and NAA
OOO LUKOIL-Volganefteprodukt	102	11	114	12	Vologda Region

The supported projects include:



Istok Non-Governmental Foundation, Energy of the Nature project (Kaliningrad)

The Energy of the Nature awareness-raising project has been in place since 2013. It is designed to help local residents and tourists learn more about the unique nature of the Kaliningrad Region and to learn how to preserve it. In 2015, an online photography competition called "The Lakes of the Kaliningrad Region" was held, and a book titled "The Nature of the Kaliningrad Region" was presented and later distributed to educational facilities and libraries across the region.



The Center of Culture and Sport of the Lunino Rural Settlement, Park of Heroes project (the Kaliningrad Region)

The organization improved the park adjacent to the war memorial, cleaning up the pond, planting roses

and spruces, and installing gazebos, benches, and waste bins. The project was completed with a literary evening for students of the Malomozhayskoye school titled "In Our Memories for Centuries".

In the Vologda Region, the Social and Cultural Projects Contest has been held since 2012. In 2015–2016, regional NGOs submitted a total of 216 applications to the Expert Council, with funding granted to 23 of them.



Vologda State Historical, Architectural and Art Museum Reserve, project Transformations of the Old Shoe and His Friends (Vologda)

The project is focused on environmental preservation, including the search for technologies of zero or near zero waste production. Environmental masterclasses were organized for Vologda residents to teach them about ideas and technologies that can help reuse old things.



117
winners

of the Social and Cultural Projects Contest in the Northwestern Federal District in 2015-2016



14

RUB million

were allocated to support the IMN medical assistance project between 2008 and 2016

In 2016, OOO LUKOIL-Komi and LUKOIL Charity Foundation held the Social and Cultural Projects Contest in the Komi Republic and the Nenets Autonomous Area for the 12th time. Projects were submitted in the categories Environment, Spirituality and Culture, Sport, and in a special category titled Energy for the Benefit of Humanity, which marks the 25th anniversary of PJSC LUKOIL. To celebrate the anniversary, the contest offered a considerably larger total number of grants, which were distributed between twice as many winners as in 2015.



In the Komi Republic, the Izhemsky District, the regional activist movement “Izvatas” won the Spirituality and Culture category for their project “Mother Tongue: The Foundation of the Spirituality and Culture of Izhma-Komi People” (the Komi Republic, the Izhemsky District)

The project won the Spirituality and Culture nomination. It aims to publish textbooks for the preservation of the language of the Komi indigenous people. Reading and writing textbooks, a Russian-Izhma dictionary, and other teaching aids were published.



Children’s Supplementary Education Center, Nizhny Odes settlement, project “School of Engineers of the Future” (the Komi Republic, the Sosnogorsk municipal district)

The project is designed to foster technical creativity in children and teenagers through training, competitions and festivals in robotics, computer science, and programming.



Kindergarten No. 2 of Izhma settlement, project “Bab Kydyis Divo (Miracle from Grandma’s Wooden Chest)”, (the Komi Republic, the Izhemsky District).

The project helps pre-school children learn more about national traditions, history and culture of their village and district, and create an interactive exhibition of traditional folk costumes (for women and children). In addition, there are gaming and learning sites and recreational areas set up on the streets.

Social Events

With support from OOO LUKOIL-Severo-Zapadnefteprodukt, Kaliningrad hosted a campaign to celebrate the beginning of the school year. On September 1, 2015, traffic police officers and volunteers from the Silver Rain radio station came out to pedestrian crossings near city schools to present flowers to car drivers, reminding them that the beginning of the school year means that there will be a lot of pedestrians who are new to the rules of road. The campaign was supported by the Kaliningrad Region traffic police.

Support of the Indigenous Minorities of the North

In its interaction with indigenous peoples, OOO LUKOIL-Komi strives to preserve their cultural heritage and traditional way of life. The key traditional activity in NAA is reindeer breeding. The Company provides regular assistance to reindeer farms as a way to improve the quality of life for reindeer breeders.

Under Cooperation agreements between PJSC LUKOIL and NAA administration, OOO LUKOIL-Komi provided funding for the construction and maintenance of a winter road up to the Khorey-Ver settlement, which is vital for the operations of the Put’ Ilyicha reindeer breeding farm.

Reindeer farms in areas where a subsidiary operates signed agreements on social and economic cooperation. As part of those agreements, equipment, fuel and lubricants are purchased, korals¹ (reindeer pens) are built, housing for farm workers is constructed, and holiday trips are provided to reindeer breeders and their children. In 2016, similar agreements were signed with SPK Harp, SPK Erv, and SPK Izhma Reinbreeder & Co. reindeer farms. The total financing under the agreements with the farms was approximately 30 million RUB. **G4-OG9**

OOO LUKOIL-Komi provides support to annual sports competitions, such as the Artur Chilingarov Hero’s Cup of Russia snowmobile races, that local residents take part in. Another major event is the annual inter-municipal Spartakiade among the residents of NAA’s villages.

For nine years, OOO LUKOIL-Komi has been providing patronage assistance to the ethnic settlement of Krasnoye’s comprehensive school for children of workers of the Harp and Erv reindeer farms. Over these nine years, the school has received new furniture, interactive devices and multimedia projectors, a mobile physics laboratory, and musical instruments.

In addition, OOO LUKOIL-Komi is implementing social and charitable projects in NAA aimed at improving the lives of indigenous peoples - the Nenets and the Komi. In 2008, OOO LUKOIL-Komi, administrations of the NAA and Zapolyarny District, the Yasavey organization and Total Exploration Production Russia oil company started a project titled “Red Rawhide”. The project helps increase the accessibility of medical assistance to nomadic residents in remote regions of the Arctic: teams of healthcare professionals provide on-site checkup and treatment to reindeer breeders and their families. Doctors also conduct training courses for women on how to administer first aid and provide them with comprehensive first-aid kits and guidebooks. The project helps identify a variety of conditions in their early stages so as to help treat them more effectively. Between 2008 and 2016, the program has helped more than 6,500 people, with a total of 14.5 million RUB allocated in funding.

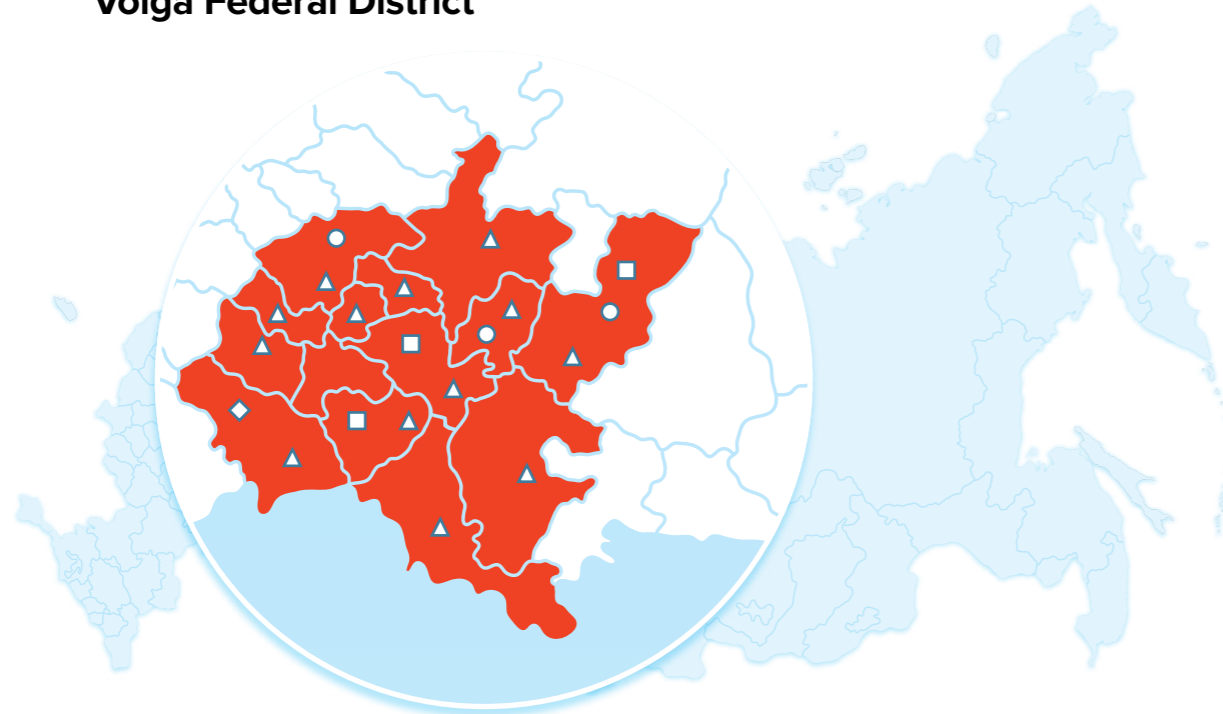
Public Recognition

OOO LUKOIL-Komi won the regional stage of the “Russian Organization of High Social Efficiency” competition in the “Participation in Tackling Social Issues of the Regions and Development of Corporate Charity” category for their 2014 results. The competition is held by the Ministry of Labor and Social Protection of the Komi Republic.



¹ A koral is an enclosure for confining livestock.

Volga Federal District



Upstream	Downstream	Midstream	Petrochemicals
OOO LUKOIL-PERM AO RITEK ¹ (TMF TatRITEKneft, TMF RITEK-Samara-Nafta, TMF RITEK-Uraloil)	OOO LUKOIL-Nizhegorodnefteorgsintez OOO LUKOIL-Permnefteorgsintez OOO LUKOIL-Volganefteprodukt OOO LUKOIL-Nizhnevolzhsknefteprodukt OOO LUKOIL-Permnefteprodukt OOO LUKOIL-Uralnefteprodukt OOO LUKOIL-AERO	OOO Kamarskaya Bulk Plant OOO LUKOIL-Trans (Transport interchange hub (TIH) Kstovo, TIH Perm)	OOO Saratovorgsintez

ECONOMIC ROLE AND INVESTMENTS

The Company's strategic goal in the federal district is to maintain the efficient production of hydrocarbons, especially through the use of new technologies and up-to-date equipment. Investments have been made in the development of Upstream infrastructure, reducing the production of heavy petroleum products and increasing the output of value-added products by refineries, as well as in projects designed to improve health and safety performance.



Achieved

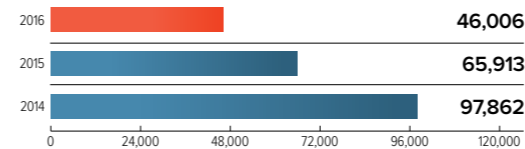
- TMF TatRITEKneft reached its target APG utilization level (97.1% of the value-added product use)
- The longest drilled oil well is located in the Perm Territory
- For the first time in Russia, the raw stock conversion rate of OOO LUKOIL-Permnefteorgsintez exceeded 98%
- 34 filling stations were upgraded and revamped and six new filling stations built

Planned

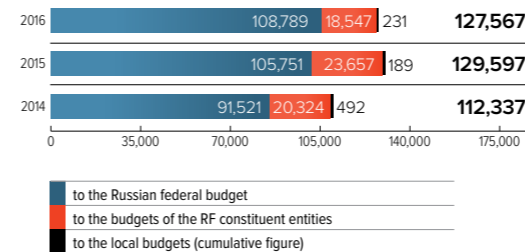
- Stabilize the key performance indicators of hydrocarbon exploration and production
- Increase the proportion of high value-added products
- Increase the raw stock conversion rate of OOO LUKOIL-Nizhegorodnefteorgsintez
- Continue to introduce energy efficiency solutions
- Continue the upgrading and revamping of the filling station network and further improve the quality of service offered to customers

Key Economic Performance Indicators

Investments, million RUB

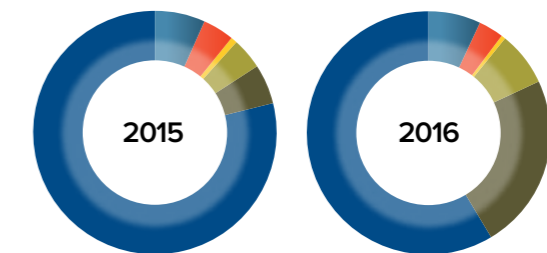


Total taxes paid, million RUB



Note. Includes taxes paid by LUKOIL Group entities incorporated as legal entities in the federal district under the applicable law.

Socially significant projects/ facilities costs, %



	2015	2016
Social support for population. Orphanages, boarding schools, schools and other childcare centers	7	7
Education	4	3
Healthcare	1	1
Centers of science, art, culture	4	7
Physical training/Sports facilities	5	23
Social and Cultural Projects Contest	79	59

¹ AO RITEK includes five territorial production enterprises (TMF) situated in three federal districts: the Southern Federal District – TMF Volgogradneftegaz (the Volgograd and Astrakhan Regions, the Republic of Kalmykia); the Volga Federal District – TMF TatRITEKneft (the Republic of Tatarstan, the Udmurt Republic), TMF RITEK-Uraloil (the Perm Territory), TMF RITEK-Samara-Nafta (the Samara and Ulyanovsk Regions); and the Ural Federal District – TMF RITEKBeloyarskneft (KMAA and YNAA).

Upstream

OOO LUKOIL-PERM is a holder of 102 mineral development licenses; it produces oil at 101 oil and gas fields, the oldest of which has been operating for 77 years. In the reporting period, three new fields were opened, including one gas deposit in the Republic of Komi (Pachginskoye). The deposit was discovered based on the results of an earlier geological exploration within the Kurino-Patrakovskoye License District. New discoveries in the Kama Region include two oil fields (South-Kalmiyarskoye and Western-Chikulaevskoye) and 32 new deposits within existing fields. The Pavlovskoye field, discovered in 1956, is a success story of additional exploration: in 2016, the drilling of five wildcats and 3D seismic surveys resulted in major additions to the existing oil reserves.

Among the major investment projects implemented during the reporting period were the renewing of the Chashkino-Kamenny Log gathering pipeline, the development of 143 new wells, and the completion of an APG pipeline construction project. In its anniversary year of the Company, the subsidiary drilled its longest well at the Rostovitskoye field – it is 4,620 m long, a new record for the Perm Territory.

The new production technologies and techniques adopted by OOO LUKOIL-PERM help enhance production and widen the production choices in complex environments. The subsidiary requested R&D and pilot projects in a number of areas relevant to the industry as a whole.

Fifteen well stimulation and production enhancement technologies were field-tested in 2015, of which two were identified as being the most effective. In particular, development of a unit exposing the bottomhole area to heat was successfully completed,

thus increasing the recovery of high-viscosity and water-cut oil. The Company also carried out pilot projects designed to prevent complications during well construction and completion, introducing smart software and hardware solutions, and the protection of downhole equipment against corrosion and deposits.

Given the high demand for effective chemicals of a consistently high quality, the Company is developing a highly inhibited water-based mud, which is produced from domestic raw materials. In 2016, the R&D stage of the project was completed. The introduction of the technology makes it possible to improve the quality of the production wells and sidetracks in the fields of OOO LUKOIL-PERM. A total of one intellectual property application was filed following completion of R&D in 2016.

AO RITEK is a holder of 162 mineral extraction licenses, which authorize it to carry out prospecting, exploration and production of hydrocarbons in different regions. In the Volga Federal District, the Company is developing 129 fields. Between 2015 and 2016, nine fields were brought into development.

The exploration operations conducted in 2016 resulted in the discovery of three fields in the Samara Region.

In the Republic of Tatarstan, a major investment project for the development of the Enorusskinskoye field is underway. A water-alternated-gas site was put into operation at the Menzelinskoye field (TMF TatRITEKneft) in 2015. The Company continued to improve its water-alternated-gas injection technology at Menzelinskoye.

Refining

OOO LUKOIL-Permnefteorgsintez, one of the most technically advanced Russian refineries, carried out numerous investment projects in the reporting period. A new advanced oil refining complex, incorporating a delayed coking unit and a diesel oil cut hydrotreating unit with hydrogen generation, was put into service, which significantly increased its oil conversion rate. The enterprise has started production of new products, including jet fuel components, oil fuel, more environmentally friendly unleaded gasolines, etc. A great deal of effort has been put into the certification of the enterprise's products.

To improve the energy efficiency of its production facilities, in 2015, the Company constructed an APG-powered co-generation plant (TES-200) to meet its in-house demand, which almost entirely removed the need to purchase power, energy, and heat. Reliance on cutting-edge gas turbine technology enabled a combined output of heat and electric power.

There is an ongoing project to replace tube heaters with more efficient ones (i.e., with performance above 85%) to cut back on greenhouse gas emissions. This will also result in a reduction in fuel consumption and an increase in the reliability and safety of the equipment.

In the reporting period, the enterprise started to implement a lean production system (that uses the Lean Six Sigma production methodology), designed to improve the overall production performance, production processes, and workforce productivity.

Over the last decade, OOO LUKOIL-Nizhegorodnefteorgzintez has commissioned new processing facilities in Kstovo, each of which is on the list of the region's biggest investment projects. Today, the plant produces over 70 products, including gasoline, diesel fuel, kerosene, marine fuel, road bitumen, propylene for the petrochemical industry, etc.



264

subsoil use licenses

in the Volga Federal District are owned by the LUKOIL Group¹



230

fields

in the Volga Federal District are being developed by the LUKOIL Group



14

projects

were successfully implemented using the Lean Six Sigma production methodology in 2015

19

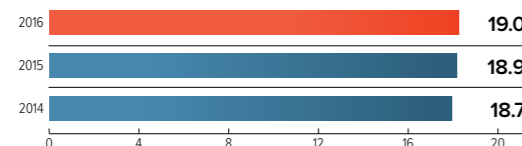
projects

were developed and implemented in 2016 based on the LSS methodology

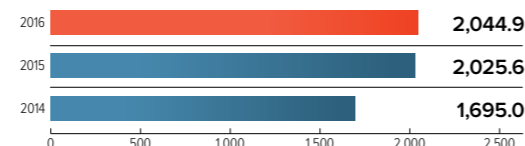
Key Operational Indicators

Production of raw hydrocarbons (OOO LUKOIL-PERM, TMF RITEK-Uraloil)

Oil production, million tons



Production of natural and associated petroleum gas, million cubic meters



¹ As of February 2017.

IN 2015, A SIGNIFICANT INVESTMENT PROJECT WAS THE COMPLETION OF THE SECOND VACUUM GAS OIL CATALYTIC CRACKER.



In 2015, a significant investment project was the completion of the second vacuum gas oil catalytic cracker. Putting the cracker into operation substantially increased the output of light petroleum products. VT-2, a vacuum gas oil unit, was built to enhance conversion efficiency and supply the enterprise with its own raw stock.

The Company is considering the construction of a heavy residue hydrocracker that is based on delayed coking. The hydrocracker will considerably improve the oil conversion rate and output of fuels that are compliant with current quality standards.

In 2016, the General Board of State Expert Review approved a project for the transfer of 8.5 million tons of gasoline and diesel fuel produced by OOO LUKOIL-Nizhegorodnefteorgsintez to the Transneft network for deliveries to the Moscow region.

In 2017, the refinery is expected to commence commercial production of ECTO 100, a gasoline intended as a replacement for ECTO Sport 98, sold at the Company's filling stations. The use of LUKOIL fuels

with an octane rating of 100 or higher improves the performance of high-power engines while preserving the operating and environmental properties of the ECTO family of fuels. The product received a positive appraisal from the Intertek laboratory in Switzerland.



"For LUKOIL, the high quality of our products has always been fundamental. It's always been essential to LUKOIL that we maintain a high quality of our products. The innovative ECTO 100 gasoline is the result of many years of work put in by the Company in the perfection of fuels that it puts out on the Russian market. A few years ago, our Company was the first in Russia to complete the modernization of its refineries and the first to switch to Euro-5 fuel. Today, we have taken another important step towards our customers - we hope that the new product, which LUKOIL has also launched first, will be in demand".

Vladimir Nekrasov,
First Vice President of PJSC LUKOIL



8.5
million tons

of fuel manufactured by LUKOIL-Nizhegorodnefteorgsintez were approved for shipment to the Transneft system in 2016

OOO Saratovorgsintez is carrying out two production expansion projects. In 2015, a second sodium cyanide unit with a capacity of 15 thousand tons/year was put into operation. The commissioning of this unit brought the aggregate product capacity that is required to meet the demand from domestic and foreign producers to 30 thousand tons/year. The investment project started in 2012. The main process was designed by GLATT (Germany) under a license from DUPONT (US).

INVESTMENT IN THIS PROJECT TOTALED 1.3 BILLION RUB.

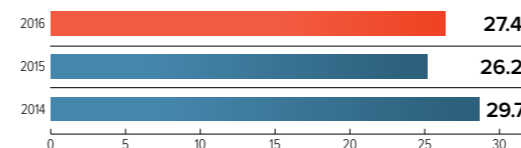
The commissioning of the unit made it possible to completely end the combustion of hydrocyanic acid, which is a byproduct of the manufacturing of the saleable product, thus considerably reducing atmospheric emissions of pollutants.

In 2016, they laid the cornerstone of the acrylamide and polyacrylamide plant (a joint project of PJSC LUKOIL and SNF Floerger (France)). It is anticipated that the initial production capacity will be 20 thousand tons and that this will be accomplished as early as 2018.

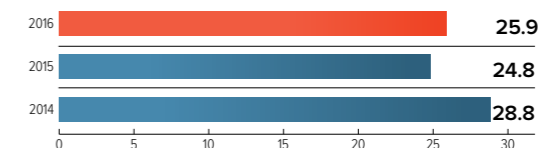
Key Operational Indicators

Oil refining: OOO LUKOIL-Permnefteorgsintez, OOO LUKOIL-Nizhegorodnefteorgsintez, (cumulative figure)

Refining output, million tons



Petroleum product output, million tons



Indicators	2014	2015	2016
Petrochemicals: OOO Saratovorgsintez			
Raw stock refining volumes, thousand tons	279.1	284.6	280.9
Commercial output, thousand tons	168.8	173.2	188.1
Gas processing: OOO LUKOIL-Permnefteorgsintez			
Petroleum and wet gas processing, million cubic meters	467.6	720.0	810.4
Natural gas treatment, million cubic meters	-	275	323.4
NGL processing, thousand tons	629.4	471.2	328.5

Source: Company data.

	2014	2015	2016
OOO LUKOIL-Kamarskaya Bulk Plant			
Oil transshipment, million tons	1.3	1.0	1.0

Source: Company data.

Petroleum Product Sales



34

filling stations

were modernized in the Volga Federal District to suit the clients' needs in 2015-2016

OOO LUKOIL-Permnefteprodukt is a major supplier of petroleum products in the Volga Federal District. In the reporting period, the Company started a ten-year upgrading program at its filling stations. It plans to re-equip the stations, create additional parking spaces, introduce pump attendants, offer tire inflation facilities, and hoovering services. Additional car wash and maintenance services may also appear.

In 2016, the Company drastically changed the appearance of its 18 filling stations in the Perm Territory, the Kirov Region, and the Udmurt Republic, and built three brand new stations in the Perm Territory. Each filling station features a café, free Wi-Fi, and a selection of products. Only natural ingredients are used in the preparation of food and beverages.

The quality control of the petroleum is in full accordance with corporate standards.

IN 2016, 1,680 SAMPLES WERE TAKEN AT BULK PLANTS, AND 3,748 AT FILLING STATIONS (IN 2015 – 1,848 AND 3,940 RESPECTIVELY).

TO PRESERVE AND MAINTAIN THE QUALITY OF PETROLEUM PRODUCTS, 549 TANKS WERE PURGED AT FILLING STATIONS AND BULK PLANTS (503 IN 2015).

A customer poll run at several new filling stations in late 2015/early 2016, revealed growing customer satisfaction, which is due to the high quality of petroleum products, good work by the personnel, and the introduction of new services, including the option of postpayments, being a major time-saver for motorists who are filling up.

Since 2016, the Company has been using a new management tool designed to improve the quality of services. Its "Service Book", a code of rules governing the sale of non-fuel products and services offered by filling stations, establishes a common framework in which all personnel work.



The Company works to attract young, qualified personnel to its facilities in order to raise the quality of service offered by the business. In 2016, an agreement was signed between OOO LUKOIL-Permnefteprodukt and Perm State National Research University for students of the Department of Economics to have their internships at the Company's filling stations.

Another major petroleum product supply company in the Volga Federal District is OOO LUKOIL-Volganefteprodukt. The enterprise's priorities have remained unchanged over the entire history of its existence. These include the safe operation of all its facilities, sales network upgrades, petroleum product quality control at every stage and substantial improvements in the services offered at the filling stations. In 2015 – 2016, it built three new stations that meet the Company's current standards, and made improvements to 14 filling stations in the Nizhny Novgorod Region, Chuvash Republic, Mordovia, and Mari El.

In 2016, OOO LUKOIL-Volganefteprodukt opened filling station No.53 on the premises of the MEGA shopping plaza in the Nizhny Novgorod Region, which is the first facility constructed under an agreement which will see LUKOIL filling stations on the premises of MEGA plazas across Russia.

”

"The project was implemented specifically in the Nizhny Novgorod Region due to the smart policies of the region's Government. In the near future, we are about to negotiate the possibility of construction of LUKOIL filling stations next to MEGA plazas in other Russian regions".

Aidar Abdullin,
Head of the Sales Development Department
of PJSC LUKOIL

The Company is particularly concerned with securing the quality of its petroleum products. The petroleum product quality control is a multi-stage process: products arriving at bulk plants are subjected to laboratory testing (certification) and samples are taken from the tankers transporting products to filling stations and from tanks at the filling stations and bulk plants.

The quality control of petroleum products in the Nizhny Novgorod Region is the responsibility of the high-tech central lab of OOO LUKOIL-Nizhegorodnefteorgzintez.

In 2015, 6,992 samples were taken from filling stations and bulk plants in the Nizhny Novgorod Region and 7,245 samples were taken from filling stations and bulk plants in the Vladimir Region and filling stations in Mordovia, the Chuvash Republic and Mari El (of which 3,340 samples were tested in a mobile lab). No petroleum products of substandard quality were identified.

144 tanks at 34 filling stations and 36 tanks at seven bulk plants were purged.

In 2015, bulk plants were retrofitted in order to improve safety: remote control devices were introduced and treatment units were installed at the Sergachskaya bulk plant and others.

Company employees constantly work to improve the services offered to customers. Almost every filling station in the network is equipped with a coffee machine. In 2016, the Company began installing machines that use

“living” milk. Some filling stations offer their customers blood pressure tests, and have pharmaceutical and flower vending machines in place. Certain filling stations feature children’s areas and those on highways have small playgrounds.

In April-May 2015, a study of customer preferences was conducted in the Nizhny Novgorod Region. The study revealed that customers highly value the quality of the fuel and the level of service offered at LUKOIL filling stations. There has been a growth in the percentage of consumers who choose the ECTO fuel and are aware of its performance characteristics.

OOO LUKOIL-Uralnefteprodukt also pays much attention to the modernization of its own network of filling stations and bulk plants in accordance with the technologies and requirements of PJSC LUKOIL. In 2016, a complete refurbishment of its bulk plant in Orenburg was carried out: a new pumping station was constructed, a full overhaul of the railway overpass was completed, process pipelines were replaced, a new transformer substation was built, and sewage treatment facilities with a storm sewage system was laid out, etc. Filling station No. 63054 in Samara and No.16119 on the 72 km of the Kazan – Ulyanovsk highway were renovated.

At its bulk plant in Iglino in the Republic of Bashkortostan, the Company built a new petroleum product quality control laboratory, which enables it to quickly conduct tests and issue product safety data sheets based on actual measurements rather than solely relying on the data contained in manufacturer certificates.

Presence of LUKOIL's Filling Stations in the Region

Area	2014	2015	2016
OOO LUKOIL-Permnefteprodukt			
Perm Territory	124	123	124
Kirov Region	48	48	48
Udmurt Republic	65	64	64
OOO LUKOIL-Uralnefteprodukt			
Orenburg Region	21	21	21
Samara Region	21	21	21
Republic of Bashkortostan	57	54	54
Republic of Tatarstan ¹	35	36	35
OOO LUKOIL-Volganefteprodukt			
Nizhny Novgorod Region	106	106	106
Republic of Mordovia	26	26	26
Chuvash Republic	14	14	15
Mari El Republic	13	13	13
OOO LUKOIL-Nizhnevolzhsknefteprodukt			
Penza Region	25	25	25
Saratov Region	35	35	35
Total	590	586	587

¹ Including one filling station of OOO LUKOIL-Volganefteprodukt.

IN APRIL-MAY 2015, A STUDY OF CUSTOMER PREFERENCES WAS CONDUCTED IN THE NIZHNY NOVGOROD REGION. THE STUDY REVEALED THAT CUSTOMERS HIGHLY VALUE THE QUALITY OF THE FUEL AND THE LEVEL OF SERVICE OFFERED AT LUKOIL FILLING STATIONS.



Environmental Protection

Key Environmental Measures

A land reclamation project in Udmurtia is one of the most crucial environmental improvement initiatives taken in the Volga Federal District. Between 2010 and 2015, OOO LUKOIL-Kamarskaya Bulk Plant successfully reclaimed 40 hectares of oil-contaminated forestry land in the Republic's Kamarka District. The contamination of the forestry land by OAO Udmurtnefteprodukt occurred prior to the bulk plant acquisition by the Company in 2009.

The Company's filling stations also take air improvement measures in urban locations. The filling stations of OOO LUKOIL-Volganefteprodukt have in-house patented environmental installations in place to recover petroleum product vapor. The recovery system helps cut back on atmospheric emissions of pollutants and reduce the sanitary zone to a minimum, which is crucial in restricted urban conditions.

Preservation of Biodiversity

In furtherance of the Biodiversity Preservation Policy, the subsidiaries annually replenish the numbers of valuable and rare fish in the rivers and reservoirs within the regions of their presence.

OOO LUKOIL-PERM works to maintain the fish numbers in Votkinskoye and Kamskoye reservoirs, and in the rivers of Kama, Buy, Yaiva, and Chusovaya. In 2015–2016, over 1 million sterlet, pike perch, and pike juveniles, specifically bred by three fish farms in the Perm District, Dobryanka and Elovo, were released into the wild.

In 2015, OOO LUKOIL-Nizhegorodnefteorgsintez released 6,489 sterlet juveniles into the Volga.

Environmental campaigns

For many years, OOO LUKOIL-PERM has held the environmental events "Children and LUKOIL for the environment" and "City of oil workers - the city of flowers" together with the Perm Branch of the LUKOIL Charity Foundation, municipalities and employment agencies.



OVER THE LAST DECADE, THE EVENTS RESULTED IN THE PLANTING OF ABOUT 3 MILLION FLOWERS AND OVER 58 THOUSAND TREES AND SHRUBS.

To mark the 25th anniversary of the Company, colorful flowerbeds were planted in the shape of the number "25" with avenues of lilac, birches, mountain ash, apple, currant, cherry, and plum orchards. Kindergartens and schools now have "healthy patches" of spices and medicinal herbs. The total spending on these events exceeded 30 million RUB in 2016.

Another environmental initiative is the removal of communal waste from the territories. In 2015–2016, employees of OOO LUKOIL-PERM cleared the specially protected natural area of the Nizhnevishersky reserve, i.e. the shoreline of Lake Nyukhti, as well as water protection zones, sanitary protection zones and territories adjacent to the production facilities of the Company. A total of 205 cubic meters of waste was collected and brought to a solid waste landfill.

OOO LUKOIL-Volganefteprodukt annually sponsors AntiSWINE, a social program whereby volunteers clean up fly tipping sites.

In 2016, in the Samara Region they held an environmentally themed children's drawing competition titled "Clear Perspective". The goal of the competition is to involve the younger generation in the process of studying and protecting the environment. About 200 school students, from first to fifth grade, entered the competition, and 36 young artists were declared winners.

Separate waste collection

In 2016, OOO LUKOIL-Volganefteprodukt launched a socially significant separate waste collection project at its filling stations, i.e. paper, cardboard, and other types of waste are submitted for recycling and are then used as processed raw materials.

40 FILLING STATIONS OF OOO LUKOIL-VOLGANEFTEPRODUKT IN THE NIZHNY NOVGOROD REGION EMPLOY SEPARATE WASTE COLLECTION PRACTICES. THE PROJECT GAINED THE APPROVAL OF THE MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES OF THE NIZHNY NOVGOROD REGION.


216.7
million RUB

were allocated to land reclamation operations between 2010 and 2015

Social Programs and Projects

Partnerships with the Areas of Presence



Discharge of obligations assumed under agreements with Russian regions (examples) G4-EC7

Perm Territory

- In 2016, in Osa, Kungur, Polazne, Krasnokamsk and Chernushka, monuments to the discoverers of oil were erected, a social entrepreneur fair was held, and a charity tour by the leading theatrical companies of the regional capital was organized.
- The achievements of 2016 include: commissioning of four rural community centers, completion of major repairs of the Polazna-based Center for Technology, renovation of the auditorium of the A.G. Soldatov Cultural Center in Perm, repairing the facade of the Center for Creative and Leisure Activities in Osa, and the beautification the adjacent territory by making pathways, putting up rest benches, creating Alpine rock gardens, and installing street planters.
- The Company allocated money to build 12 pre-schools in the Oktyabrsky, Siva, Usolye, Dobryanka, Kueda, and Chernushka Districts. It helped to renovate school No.8 in Krasnokamsk, and made repairs to school buildings in the Kueda District.
- Completed construction projects include: three rural health posts in the Gainsky District, there is ongoing renovation of the Municipal Children's Hospital in Berezniki, the Perm Territory Children's Clinical Hospital, and the M.A. Tverye Infirmary No.9.
- Stadiums were opened in Ochera, Perm, and the village of Siva. The Company rebuilt athletic tracks in stadiums in Dobryanka and Elovo, and laid out sports grounds with outdoor fitness machines in the village of Polozovo in the Bolshaya Sosnova District and in the Comprehensive Rehabilitation Facility for the disabled in Perm.
- A gas boiler house was overhauled in the village of Oshya in the Kueda District. A streetcar emergency maintenance truck was purchased for the municipal electric transport department in Perm.
- Ecclesiastical construction projects included churches in Krasnovishersk and Perm, and mosques in the villages of Barda and Bashkultaevo. In addition to that, the Company has been supportive of monasteries (Belogorsky Monastery in the Kungur District, Monastery of the Transfiguration of the Savior in Usolye, St. Nicholas Monastery in the village of Nikolaevskoye in the Chernushka District), churches in the villages of Orda, Dobryanka, Osa, Polazna, Elovo, Kueda, etc., and mosques in the Uinskoye, Barda, Oktyabrsky, and Kueda Districts.
- By joining forces with the Territory's authorities, LUKOIL plans to put in place six new rural community centers with a seating capacity of 100 in the villages of Enapaevo in the Oktyabrsky District, Nizhny Lukh in the Dobryanka District, Etysh in the Chernushka District, Vanky in the Chaikovsky District, and two with a capacity of 200 in the villages of Aspa in the Uinskoye District and Beloovo in the Kudymkarsky District. There are plans to refurbish and remodel community centers in the villages of Chaika in the Uinskoye District, Tyush in the Oktyabrsky District, and Yug in the Perm District.



"The Perm Territory is one of the leaders in the oil and gas industry, thanks in part to the investment policy pursued by LUKOIL. The Company has, in a timely manner, and using the best technology that there is, modernized its enterprises and made the kind of progress that is now highly valued in the global market. In addition, what is more important is what the Company has done for the country through developing its economic potential and addressing social issues in the regions of LUKOIL's presence".

Mikhail Babich,

plenipotentiary for The Russian President
to the Volga Federal District

Discharge of obligations assumed under agreements with Russian regions (examples) G4-EC7



Samara Region

The Cooperation Agreement between the Company and the Samara Region Government will continue to be in effect till the end of 2018 and provides for completion of long-term geological surveys and reserve replacement programs in the Region, as well as development of oil and gas production and product marketing in the area.

The Company is actively involved in social, sports and cultural projects. In 2015 and 2016, the Samara Region was used by AO RITEK as a venue for the social and cultural project contests of PJSC LUKOIL, with funds being allocated for construction of sports facilities in the villages of Koshki and Bolshaya Glushitsa.

Nizhny Novgorod Region

The Agreement made with the Nizhny Novgorod Region Government sets the following priorities:

- develop and improve the performance of the fuel and energy sector businesses of the region;
- ensure sustainable supplies of fuel and lubrication to the businesses and the general public in the Nizhny Novgorod Region;
- maintain social stability, improve the social situation, population demographics and standard of living in the region;
- improve the environmental situation in the Nizhny Novgorod Region;
- adopt an approved social and economic policy that serves the interests of the people living in the Nizhny Novgorod Region, the personnel of the Company's subsidiaries, plan and take actions designed to increase production, and engage competent professionals by offering fair wages and bonuses;

OOO LUKOIL-Uralnefteprodukt is active in providing charitable and sponsorship assistance to educational establishments, local authorities, orphanages, non-government organizations in the Republic of Tatarstan, and, jointly with governmental authorities, supports and promotes children's crafts and sports.

Social projects and events

With support from the Perm Branch of the LUKOIL Charity Foundation, as part of a charity program started by LUKOIL Group entities in the Perm Territory, the S.P. Dyagilev University-Preparatory School No.11 opened a museum-laboratory of ethnography, arts and crafts of the Perm Territory. The permanent exhibition features one-of-a-kind ethnographic materials that were collected by students and teachers of the school on expeditions and walking tours in the northern and southern areas of the Perm Territory.

In 2016, the Company continued its support of the Saint Lord and Master Alexander Nevsky Orthodox Christian school in Nizhny Novgorod, by constructing a new school building.

In 2015, OOO LUKOIL-Volganefteprodukt helped create a new children's sports ground on the premises of the Zarechye health and fitness center in Nizhny Novgorod, divided into three artificial turf zones for those doing fitness, for the disabled, and for those practicing, or holding tournaments of, mini-football or tennis. The ability to do different sports at one facility provides a unique opportunity for visitors, students of Gymnasium No.120, and residents of the entire Leninsky District. The sports ground is open for all.



In 2015,

the Company continued its support of the Saint Lord and Master Alexander Nevsky Orthodox Christian school in Nizhny Novgorod



"Sports and physical education are becoming the "in-thing" in the Nizhny Novgorod Region. I would like to thank our long-standing sponsor, LUKOIL-Volganefteprodukt, for its continuous contribution to the promotion of sports in the region".

Sergey Panov,
Minister of Sports of
the Nizhny Novgorod Region

OOO LUKOIL-PERM's annual Addresses of Mercy has been a tradition of many years. The funds raised by its personnel in 2015 were used to help over 2,700 people in the Perm Territory. The LUKOIL Charity Foundation additionally sponsored the purchase of gifts. In December, the volunteer young professionals of LUKOIL-PERM and LUKOIL-URC Perm paid visits to nursing homes in the Chernushka and Solikamsk Districts, Elovo psychoneurological boarding school, Verkhnyaya Kurya geriatric center, psychoneurological boarding schools in the Orda and Dobryanka Districts, and the Osa disabled society. They gave observation beds to some nursing homes and every single patient got presents and attended holiday concerts featuring stage performance groups of the Kama Region.

Social and Cultural Projects Contest

The organizers of the Social and Cultural Projects Contest in the Volga Federal District are OOO LUKOIL-PERM, AO RITEK, and OOO LUKOIL-Volganefteprodukt (in cooperation with the LUKOIL Charity Foundation).

To mark its 25th anniversary, the Company increased the total grant fund for the 2016 Contest in the Perm Territory to 25 million RUB, which is an 11 million RUB increase from the previous year. This resulted in a higher influx of applications and an improvement in the quality of the projects. A total of 1,070 applications were submitted, and 153 projects received funding. Despite the turbulent economic times, the 2017 total grant funding was sustained.

AO RITEK annually spends 25 million RUB on projects in Tatarstan. Between 2015 and 2016, OOO LUKOIL-Volganefteprodukt allocated over 15 million RUB on projects in the Volga Federal District.

Over 400 non-government and municipal organizations received financial backing for their projects as part of the initial social and cultural projects contest, held by OOO LUKOIL-Volganefteprodukt. This leads to better living conditions, promotes social partnership, and provides a considerable impetus to children's programs.


> 2,700
people

received support as part of the Addresses of Mercy Initiative in 2015

Contest results

Contest operator	Number of projects				Coverage area
	2015		2016		
	submitted	winners	submitted	winners	
OOO LUKOIL-PERM	982	103	1070	153	Perm, ZATO Zvezdny, Berezniki, Aleksandrovsk, Barda, Vereshchagino, Dobryanka, Elovo, Ilyinsky, Ust-Kishert, Krasnovishersk, Krasnokamsk, Kungur, Kueda, Oktyabrsky, Orda, Osa, Perm, Siva, Solikamsk, Suksun, Uinskoye, Usolye, Chaykovsky, Chastye, Cherdyn, Chernushka, Chusovoy, Yusva Municipal Districts of the Perm Territory, Verkhniye Tatyshly Municipal District of Bashkortostan
OOO LUKOIL-Volganefteprodukt	169	36	177	33	Nizhny Novgorod Region, Republic of Mari El, Chuvash Republic, and Republic of Mordovia
AO RITEK	691	169	706	152	Republic of Tatarstan
	431	54	397	64	Samara Region

The supported projects include:



The Tatar-Bashkir community center in the Oktyabrsky municipal district, "Park of my Dreams" project (the Perm Territory)

The Company completed landscaping of a public park in the village of Oktyabrsky, put up playground apparatus and planted trees. This is a venue for children and youth celebrations, competitions, and health days. Daily visitation to the playground exceeds 200 people. Now children, teenagers, young families with kids and athletes can enjoy quality leisure time here.



The Orthodox parish of the Holy Trinity Church in the village of Nizhniye Mully, the Perm District, "The Land of Saint Tryphon" project

During the project, a volunteer team of young professionals of the LUKOIL entities in the Perm Territory proceeded with the beautification of the Tryphon poustinia. They built stairs and planked footways. Where the sacred spring comes to the surface, they built a draw-well and a baptismal font.



Project "Health Park" (the Perm District, the Perm Territory)

The project resulted in the construction of a multi-purpose ecological "Health Park" for outdoor family recreation in the village of Sylva. The money was used to purchase park facilities.



The Projects, "We Shape the Future through Our Love for Children", and "Children's Sports and Playgrounds" (the Krasnovishersk District)

Creation of a sports and playground zone near the district community center for active recreation and promotion of children's health. The grant money was spent on outdoor fitness machines.



764
winners

of the Social and Cultural Projects Contest in the Volga Federal District in 2015-2016



“New Age of Tatarstan” republican social movement, “Volleyball – Intelligence and Health” project.

Promotion of healthy lifestyles, growing the number of Tatarstan residents regularly engaged in sports, including volleyball. All things required are now in place: amateur athletes have been provided with high-quality sports gear and equipment, and competitions are held. More residents of the Republic’s municipalities are now playing volleyball. An essential result of the project was the formation of youth sports volunteer teams (of 200 people). The project was carried out with support from the Ministry of Youth and Sports of Tatarstan and executive committees of the municipalities.



The Regional Non-Governmental Organization “Women of Tatarstan”, “You’re not Alone” project

The aim of this project was to set up a crisis management center for mothers with children in difficult circumstances. A comfortable environment has been created where women have access to medical care, counselling, and practical advice on how to overcome their difficulties. Over the 8 months the project has been running, the crisis management center was visited by 19 people, 13 mothers had a change of heart and took their children back home. The project was carried out in cooperation with the Ministry of Health, and the Ministry of Labor, Employment, and Social Protection of Tatarstan.



The “Aspect” Center for Development of youth journalism, film making and TV, “Sounds of War” project

The participants of the project included about 2,500 students and 70 educators from children and youth film-making organizations, with the project geography covering the children’s centers Artek (Crimea), Orlenok in the Krasnodar Territory, the Samara Region and other Russian regions. The project participants made a film based on the book “Holy Cats” by N. Soplyakov,

written in 2003 based on the recollections of radio and communications operators of the 50th Detached Air Warning Battalion. A film crew was set up, and advice was sought and obtained from experts from the Russian Film-Makers Union. Preparations for the film shootings took place at the Artek International Children’s Center, and the film itself was shot in the Stavropol District and the Samara Region.



Nizhny Novgorod Alekseev State Technical University, “Formula Student Design Bureau” project

The goal of the project was to engage students in scientific and technical creative activities, drive the learning process and promote up-to-date technological developments. The students of Alekseev Technical University independently created a one-of-a-kind sports trimaran, the “Silver Arrow”, powered by solar energy. The team of students, SOLAR TEAM, came in 1st in the race held on the Moskva River, and came 2nd overall in the international Solar Regatta engineering competition.

Public Relations

OOO LUKOIL-Volganefteprodukt seeks to respond to public inquiries in a timely manner and regularly holds an Open House Days, inviting local residents to get an insight into its quality assurance system, environmental policies, and to assess the level of services offered at its bulk plants and filling stations.

The Company is working to combat the distribution of fake petroleum products. In 2015, its employees were invited to a round table discussion held by the Legislative Assembly on the Nizhny Novgorod Region as experts to discuss the issue.

The 2016 meeting of the BRICS ministers of labor and employment in Ufa including a round table on youth employment was held at the offices of OOO LUKOIL-Uralnefteprodukt.

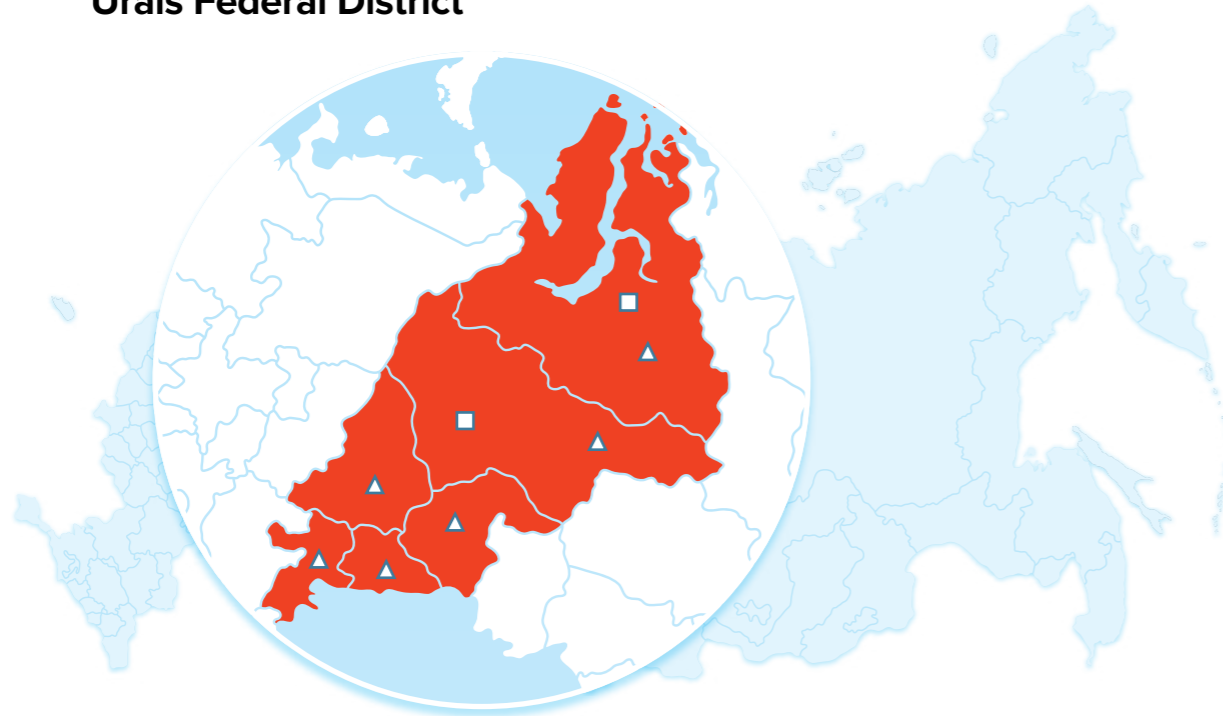
Public Recognition

- For their innovative scientific and technological work titled Creation and Introduction of Equipment and Technology to Operate Rat Holes with Pumping Units Equipped with Cable Rods, in 2016, a team of OOO LUKOIL-PERM experts headed by O.V. Tretyakov, was awarded a prize, and received lapel pins, and certificates from the central board of Gubkin Scientific and Technical Society of the Oil and Gas Industry.
- The logo of LUKOIL-PERM was placed on the patron of arts recognition board at Perm State National Research University, as one of the sponsors providing financial backing to the university since its foundation.
- OOO LUKOIL-Permnefteorgsintez won the 12th All-Russian Nature Conservation Leader award, Best Municipal Enterprise in Terms of Production Performance and Resolution of Social Issues, and the All-Russian Contest 100 Best Russian Goods in the category Industrial and Technical Products.
- For the effort it made in the protection and efficient management of reservoirs, OOO LUKOIL-Volganefteprodukt received a letter of appreciation from the Verkhnevolzhsk Basin Water Management Board of the Federal Agency for Water Resources.
- OOO LUKOIL-Volganefteprodukt is the only three-time winner of the Nizhny Novgorod Phoenix prize in the category Goodwill Company. The Company was awarded a winning certificate of the 5th annual Pine Tree Branch competition, an environmental event held in the Nizhny Novgorod Region in 2015.
- Following the 1st stage of the annual Best Motorway Service Facility competition, OOO LUKOIL-Uralnefteprodukt was awarded a 2nd place certificate in the Best Fuel Filling Station category.



OOO LUKOIL-PERMNEFTEORG-SINTEZ WON THE 12TH ALL-RUSSIAN NATURE CONSERVATION LEADER AWARD.

Urals Federal District



Upstream	Downstream
OOO LUKOIL-West Siberia	OOO LUKOIL-Uralnefteprodukt
AO RITEK	OOO LUKOIL-Permnefteprodukt
(TMF RITEKBeloyarskneft)	OOO LUKOIL-AERO
ZAO Tursunt	
ZAO LUKOIL-AIK ¹	



ECONOMIC ROLE AND INVESTMENTS

The LUKOIL Group's strategic focus in the region is on the stability of hydrocarbon production through, in particular, the development of hard-to-recover hydrocarbon reserves with the use of cutting-edge technologies, as well as protecting the environment and contributing to the solution of pressing local problems in order to reduce the burden on the environment. The LUKOIL Group's main oil production enterprise OOO LUKOIL-West Siberia operates in this region.

¹ In June 2017 transformed into OOO TURSUNT and OOO LUKOIL-AIK.

Achieved

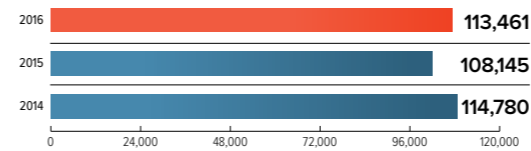
- APG utilization reached 95%
- Nearly 100% of the waste generated from OOO LUKOIL-West Siberia production operations is utilized
- TMF Urayneftegaz fully reclaimed the "heritage" of 600 ha of contaminated land

Planned

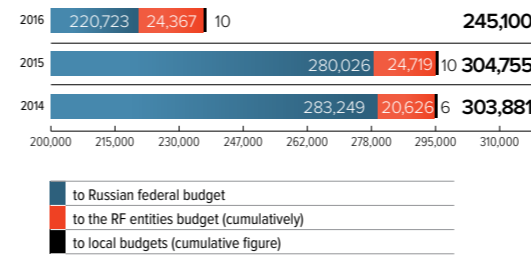
- Maintain the indicator at the aforesaid level during further production operations
- Continue to develop a cuttings recycling technology that will help reduce waste burial and enable its utilization in the production process
- Continue the construction of new waste disposal sites
- Continue the reclamation of disturbed and oil-contaminated lands and further improve the reliability of pipelines

Key Economic Performance Indicators

Investments, million RUB

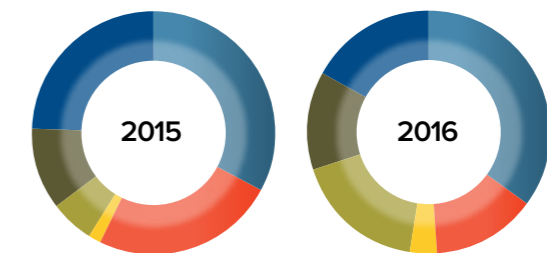


Total taxes paid, million RUB



Note. Includes taxes paid by LUKOIL Group entities incorporated as legal entities in the federal district under the applicable law.

Socially significant projects /facilities costs, %



	2015	2016
Social support for population. Orphanages, boarding schools, schools and other childcare centers	33	35
Education	24	14
Healthcare	2	3
Centers of science, art, culture	6	18
Physical training/Sports facilities	11	13
Social and Cultural Projects Contest	24	17

Upstream



106 subsoil use licenses

in the Ural Federal District are owned by the LUKOIL Group

OOO LUKOIL-West Siberia operates in the Tymen Region, Khanty-Mansiisk Autonomous Area – Yugra, Yamalo-Nenets Autonomous Area, and the Krasnoyarsk Territory within 106 license blocks. The total area of its license blocks is 82 thousand sq.km. They are being developed by specialists in six territorial production facilities.

The strategy of replenishing the Company's resource base includes the acquisition of new blocks from the unallocated subsoil reserve fund and the discovery of new oil and gas fields and deposits. Four new blocks (East Taimyr, East Tugrov, South Kholmogorsk, and Shchuchy) were acquired and two new fields (West Imilorskoye and Yukkun-Yeganskoye) were discovered in 2015-2016.

The expansion of its presence in the RF Arctic area celebrated a new stage in the Company's development. 2016 saw the launch of geological exploration in the Taimyr Dolgano-Nenetsky district of the Krasnoyarsk Territory. OOO LUKOIL-West Siberia also links the development of its resource potential with YNAA (Bolshekhetskaya Depression), where the Company holds six licenses in which eight fields are located (Pyakyakhinskoye, Nakhodkinskoye, Khalmerpayutinskoye, South-Messoyakhskoye, North-Khalmerpayutinskoye, Salekaptskoye, Perekatnoye, and Vareyskoe).

2016 was marked by the launch of the commercial development of the Pyakyakhinskoye oil and gas condensate multi-layer field (YNAA), unique for Russia in terms of field development and operation. During the period under consideration a gas turbine power plant with the capacity of 36 MW was constructed at the field, as well as an integrated oil and gas treatment

unit, booster station to maintain reservoir pressure, and condensate deethanization and stabilization unit.

OOO LUKOIL-West Siberia develops technology which helps resolve the problem of waste disposal. In 2014, the Company received the praise of the state environmental expert center for developing technology that uses cuttings to manufacture construction material. The technology has been in use since 2015. In 2016 the Company signed an agreement to recycle the total volume of cuttings to manufacture construction material used for earthwork during cluster pad construction, rehabilitation of disturbed lands, and other types of work. Over 500 thousand tons of waste was utilized in 2016, which had previously been buried in sludge pits.

OOO LUKOIL-West Siberia pays special attention to the search for new technology to increase reservoir recovery, among which is multi-zone hydraulic fracturing, branched and multi-lateral well drilling, three-string well program, etc. New chemical agents and new hydraulic fracturing technologies were tested in 2015-2016, with positive results for certain types of work.

Similar tasks are being tackled by AO RITEK at fields in the KMAA-Yugra.

In the KMAA-Yugra, AO RITEK continues its pilot projects on thermal gas reservoir treatment, a Russian import-substituting method used in the development of hard-to-recover reserves. The technology is already being applied at two sites of the Sredne-Nazymkoye field (TMF RITEKBeloyarskneft); the results obtained have proved the theoretical foundation of the technology.

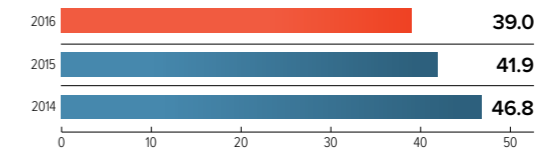
The expected effect of the project is an increase in the oil recovery rate by 15-20%. In 2015, PJSC LUKOIL approved a comprehensive program for the implementation of this technology at the third pilot site. This technological development is also included in the regional program "Development and Use of the Khanty-Mansiisk Autonomous Area – Yugra Mineral Resource Base". The project is recognized as one of the elements of an integrated, systemic work on bringing hard-to-recover reserves into commercial development and changing the technological platform of the oil industry in the region.

AO RITEK is also implementing a major investment project to develop and set up surface infrastructure for the V.N. Vinogradov field (the Beloyarsky district, KMAA-Yugra). At the geologically difficult Sandbinskoye field in the Nadymsky district, YNAA, the water alternating gas injection method is applied: the APG produced from the field is injected into the oil reservoir, which results in lower oil viscosity and a capillary force effect that keeps residual oil in place.

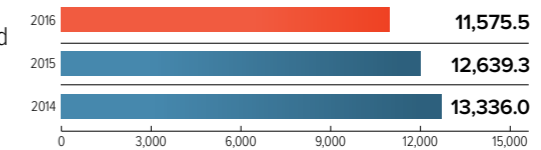
Key Operational Indicators

Hydrocarbon crude production (OOO LUKOIL-West Siberia and TMF RITEK-Beloyarskneft of AO RITEK)

Oil production, million tons



Production of natural and associated petroleum gas, million cubic meters



Source: Company data

AO RITEK RESEARCH AND TECHNOLOGY ACTIVITIES

The innovation objectives of the organization include: higher energy efficiency; higher recovery rates; higher efficiency in the development of hard-to-recover reserves. Priority areas of innovation include: improvement of field development systems, testing new water-alternating gas injection and thermal gas treatment technologies.

AO RITEK owns 113 items of intellectual property as of December 31, 2016. 79 of them are patents for invention, 26 are utility model patents, 7 trademark certificates, and 1 database certificate. 34 technologies were tested under the "Pilot Projects and New Technologies Program" in 2015-2016.



Downstream



In 2016, OOO LUKOIL-Uralnefteprodukt started the reconstruction of an oil storage depot in Kogalym and reconstruction work was completed at filling station No. 74057 in Magnitogorsk and filling station No. 72303 in Tyumen. The updated filling stations will be able to service the whole transport flow quicker and better; they have enough parking spaces, and car drivers will be able to use a tire inflation service. In 2016, OOO LUKOIL-Uralnefteprodukt filling stations introduced the postpayment service.

In 2016 the first LUKOIL youth filling station was opened in Chelyabinsk which sets the goal of becoming a benchmark of quality of service. There are plans to introduce new lines of non-fuel products and new services, change the interior, and launch social initiatives at the filling station.

Presence of LUKOIL's Filling Stations in the Region

Area	2014	2015	2016
OOO LUKOIL-Permnefteprodukt			
Sverdlovsk Region	83	87	88
OOO LUKOIL-Uralnefteprodukt			
Kurgan Region	4	4	4
Tyumen Region	21	19	19
Khanty-Mansiisk Autonomous Area – Yugra	53	45	45
Chelyabinsk Region	104	103	102
Yamalo-Nenets Autonomous Area	1	1	1
Total	266	259	259

OOO LUKOIL-Uralnefteprodukt worked to introduce a Service Book during the reporting period. A training schedule was drafted for all categories of workers, an e-version of the Book was sent to all regional directorates and filling stations for self-study.

Six OOO LUKOIL-Permnefteprodukt filling stations in the Sverdlovsk Region radically changed in appearance in 2016: four of them were reconstructed and two were modernized. Another new LUKOIL filling station was set up in the region. The quality control of the petroleum is in full accordance with corporate standards. For instance, a total of 240 samples were taken at the oil storage depot, and 2,648 samples at filling stations in the Sverdlovsk Region in 2015-2016.

Environmental Protection

Water Resource Management

One of the main objectives OOO LUKOIL-West Siberia managed to achieve during the reporting period was the reduction of water consumption from natural sources and the prevention of pollutant discharge into bodies of water. The water intake from the water sources to satisfy the needs of its oil fields used to be over 5 million cubic meters annually, while now it has been completely stopped.

The Company carries out monitoring of submerged crossings through the bodies of water. Each body is examined in the summer and the status of water protection areas, riversides and coastland is assessed.

Waste Disposal

Taking into account the urgency of the topic of waste reduction and land reclamation in the KMAA-Yugra, specialized landfills have been created at each OOO LUKOIL-West Siberia enterprise, where oil sludge is thermally processed at waste disposal facilities, thus there is no need to construct temporary pits for its placement.

At the disposal sites, a continuous process of placing and neutralizing oily waste has been organized. As of the end of the reporting period, all sludge pits with oily waste were eliminated and land plots were reclaimed.

Preservation of Biodiversity

OOO LUKOIL-West Siberia supports the nature and wildlife reserves of the KMAA-Yugra, including the Small Sosva and Yugansky reserves, the Untorsky and Sorumsky reserves, and the Kondinsky Lake Nature Park.

One of the blocks under development is located on the territory of the Kondinsky Lakes Nature Park. Park specialists take part in discussions even at the early design stages of the Talnikov field and, if necessary, make adjustments, taking into account the specific

conditions of the work in the protected natural area. The measures undertaken by LUKOIL fully comply with the requirements set by modern HSE management systems. **G4-EN11**

G4-EN11

It is the intent to reduce to a minimum the surface area of the land allotted to the construction of facilities. No facilities are to be located in protected water areas, areas under special ecosystem protection or near historical and cultural monuments taking into account the functional zoning of the nature park.

Pitless technology is employed to construct wells within the nature park. To this end, rigs are equipped with the cutting-edge treatment systems and high-performance equipment. The drilling cuttings are taken away for disposal outside the park area. A low-toxicity drill mud is used during well construction.

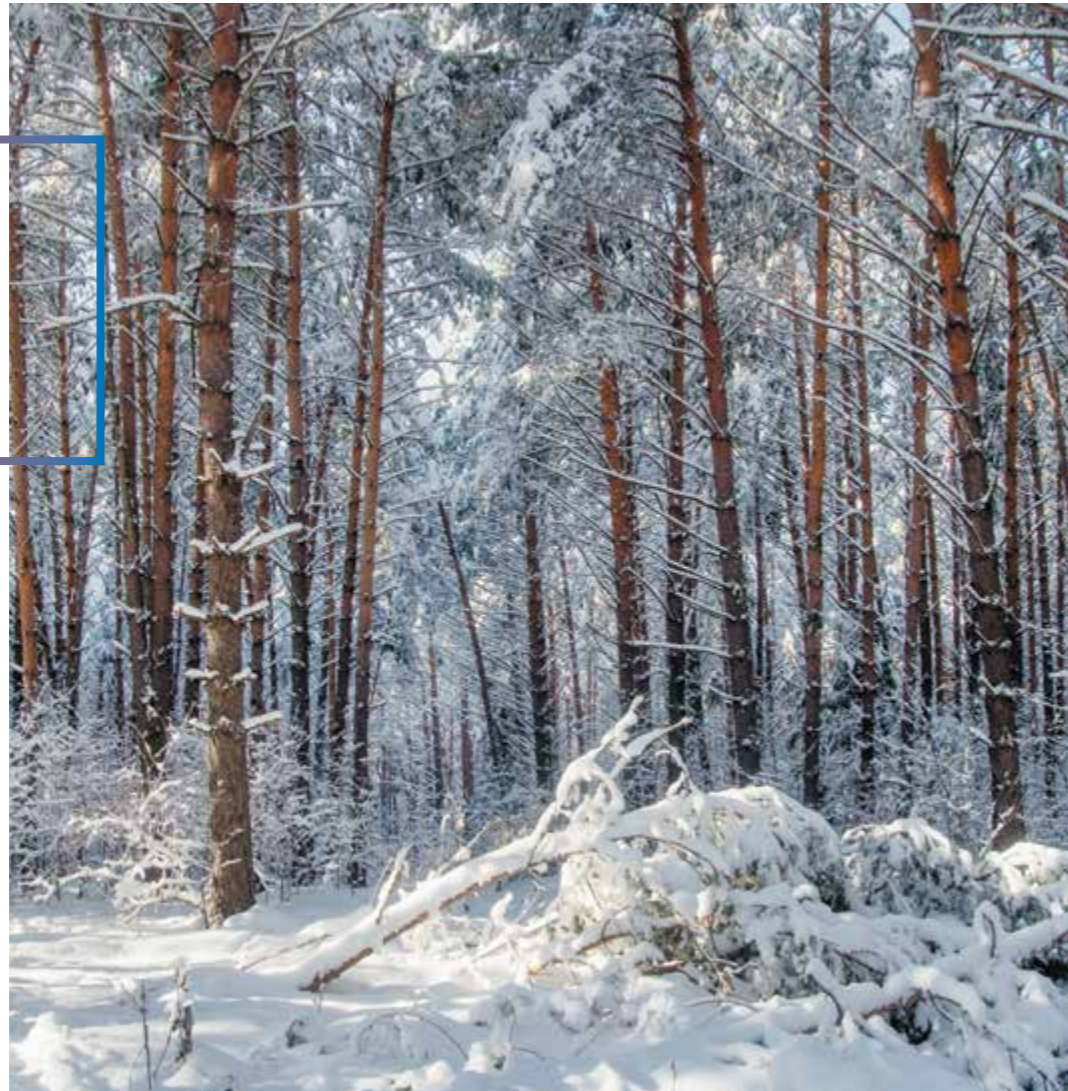
Bottom water has been used to maintain reservoir pressure since 2010, which allows the Company to use no water from the Kurtamysh horizon and preserve the nature park hydrosphere.

A pressure-sealed system of well product gathering and transportation is applied at the field. A multi-phase booster station was built for the export pipeline to transport the produced liquid-gas mixture without its separation into oil and gas. This allowed the Company not to construct a separation unit which provides for flaring and tank battery.

Pipes with inside anti-corrosion coating and outside polyethylene insulation are used for the construction of oil gathering mains and high-pressure water lines. An anti-filtration screen and groove along the axis of the wells ensure that no contaminants can infiltrate the soil in case of an emergency.

In order to preserve the soil and vegetation layer during road construction, this layer is cut off at the base of the embankment and is subsequently used to strengthen the slopes of the roadbed and to reclaim disturbed lands.

KONDINSKY LAKES NATURE PARK SPECIALISTS TAKE PART IN DISCUSSIONS EVEN AT THE EARLY DESIGN STAGES OF THE TALNIKOV FIELD.



G4-14



> 30 million

baby whitefish are annually released into the waters of the Nizhneobsky water basin

Throughout the entire period of development and operation of the Talnikov field, environmental monitoring will be carried out. The monitoring allows the Company to track changes in the environmental components under the impact of natural and human-caused factors.

Control is carried out in compliance with the project of local environmental monitoring. When developing the project, features of the natural environment of the territory were analyzed, human impact on the environment caused by operating the field was assessed, the optimum number and location of monitoring points were determined, as well as the monitoring frequency of environmental components.

The study results are regularly submitted to the nature park administration. The monitoring study findings show that the human-caused impact resulting

from production activity complies with tolerability limits and make it possible to forecast changes in the environmental situation within this territory. G4-14

The nature park specialists annually carry out a joint comprehensive audit of the oil production facilities. The specialists from the OOO LUKOIL-West Siberia contractor organizations who carry out production activities at the Talnikov field, are engaged in the audits.

The program of fish stock recovery in the rivers and bodies of water within the LUKOIL operated territories also contributes to the preservation of biodiversity in regional water bodies. Over 30 million baby whitefishes are annually released into the bodies of water of the Nizhneobsky water basin.

Social Programs and Projects

Partnerships with the Areas of Presence

Supplement agreements to the framework Cooperation Agreement between the KMAA-Yugra Government and PJSC LUKOIL, in force until 2018, were signed in 2015 and 2016.

We have cooperated under the Agreement in YNAA since 2007. The Company and the region are actively cooperating in the development of oil and gas production in the Arctic, the application of a more



“Cooperation Agreements between the Yugra Government and LUKOIL have been signed since 2005. Thus, in 2015, we celebrated a sort of anniversary. The tradition is to sum up cooperation results at such pivotal moments. The Company invests in major social projects that are aimed at the development of culture, sports, and social infrastructure. The partnership between the government of the autonomous area and the oil company is regarded as a long-term project where we appreciate certainty and reliability of our relations.”

Natalya Komarova,
KMAA-Yugra Governor

stringent approach to environmental safety and measures aimed at the social development of Yamal.

In 2015 V. Alekperov, PJSC LUKOIL President and CEO, and V. Tolokonsky, Krasnoyarsk Territory Governor, signed a Cooperation Agreement until 2020 within the framework of the St. Petersburg International Economic Forum. A supplementary agreement was signed in 2016 which determines the scope of social project financing within the territory. LUKOIL will contribute to the construction of a sports hall and a recreation center for the youth of Khatanga, and a boarding school for 250 pupils in Nosok.



“It gives us joy to see that one of the global oil leaders, LUKOIL, links its future development with its projects in the Yamalo-Nenets Autonomous Area. We see the need to maintain a balance between the industrial development of the territory, a conservative attitude to Arctic nature, and the preservation of the traditional way of life of the Far North indigenous peoples. This harmony of interests of all parties is a formula for sustainable development for both business and the territory. Our cooperation determines not only the social and economic development of the region, but that of Russia as a whole.”

Dmitry Kobylkin,
YNAA Governor

Discharge of obligations assumed under agreements with Russian regions (examples) G4-EC7

G4-EC7

Region	Content of cooperation agreements
KMAA – Yugra	Historically, within the framework of the agreement, residential houses, social facilities, cultural and leisure and sports institutions have been built, and sports and cultural events have been organized. In 2015–2016: <ul style="list-style-type: none"> a 16-storey residential building was commissioned and two 3-storey buildings are under construction in Kogalym, as well as a skiing center in Pokachi, an ethnographic center in Sovetsk, a water intake with water treatment facilities in the settlement of Gornopravdinsk in the Khanty-Mansi district, a community club and sports hall in the settlement of Trom-Agan and village Russkinskaya, and a water and sports complex in Langepas; the community cultural center Sibir in Kogalym, Oktyabr in Pokachi, and Neftyanik in Urai were renovated; the Delfin swimming pool in Pokachi and kindergarten No.12 in Urai were renovated and the non-residential building of the children’s health center was renovated and transformed into a residential house; the Galaktika sports and cultural facility is under construction in Kogalym.

G4-EC7

Discharge of obligations assumed under agreements with Russian regions (examples) G4-EC7

Region	Content of cooperation agreements
Yamalo-Nenets Autonomous Area	In 2015 investments were made to construct a Nursing Care Home and an Orthodox Christian church in the Tazovsky settlement, to support the indigenous minorities of the North, and to construct social infrastructure facilities and housing. In 2016 the Company financed the construction of a residential building for medical workers in the Tazovsky settlement, provided medical and diagnostic assistance to severely ill children and children with disabilities, developed hang gliding and aviation tourism, expanded the use of light aviation for the YNAA industries, as well as contributed to a regional environmental project to clean up the isle of Bely.



Social projects and events

In June 2016, OOO LUKOIL-Uralnefteprodukt participated in the Ilmen Festival that celebrated its 40th anniversary. Admirers of guitar poetry gather annually to listen to bards (poets singing their own songs to the guitar) in the vicinity of the city of Miass.

In 2016, when celebrating the 280th anniversary of Chelyabinsk and the 25th anniversary of the Company, operators of the youth OOO LUKOIL-Uralnefteprodukt filling station organized a festivity for young patients of the Chelyabinsk regional clinical hospital.

In 2016, “the LUKOIL Golden Puck Cup” for children’s teams was organized with the support of the Chelyabinsk Region Directorate for Culture, Sports and Tourism and OOO LUKOIL-Uralnefteprodukt.

Social and Cultural Projects Contest

The Social and Cultural Projects Contest has been convened since 2005 on the territory covered by OOO LUKOIL-West Siberia operation. In 2015 the contest area expanded to include Tyumen.



49
winners

of the Social and Cultural Projects Contest in the Ural Federal District in 2015-2016

Contest results

Contest operator	Number of projects				Coverage area
	2015		2016		
	submitted	winners	submitted	winners	
OOO LUKOIL-West Siberia	105	24	104	25	KMAA - Yugra (Kogalym, Lange-pas, Urai, Pokachi); YNAA (Salekhard, Tazovsky district, Tazovsky settlement); Tyumen Region (Tyumen)

The supported projects include:



“Save Ugra” organization, “Childlore of the Ob Ugric people” project

A multimedia collection of the Far North peoples’ folklore was created under the project, educational seminars and classes for children in Kogalym, Pokachi, and Langepas were organized. The project helps preserve samples of traditional culture of the indigenous peoples and attract children’s attention through the use of modern forms of presentation. Five hundred schoolchildren and 10 school teachers were involved in the project.



The “Children’s Supplementary Education Center” state-funded educational institution, “Robotics Engineering and Sports Clubs” project

A system of intellectual and creative contests is organized in Urai, whose objective is to promote sports-oriented robotics, motivate the youth to choose engineering and construction careers, engage children and the youth in innovative activities for the development of hi-tech industries in the KMAA-Yugra. The club was the venue for two city and one regional contests which involved 50 teenagers.



341

economic cooperation agreements

were signed with the IMN-populated territories in the KMAA-Yugra in 2016



G4-OG9

Interaction with indigenous peoples of the Far North

Contracts and agreements on social and economic cooperation with the Governments of RF entities, local self-governance bodies, indigenous communities, and with district and settlement associations of the indigenous minorities of the Far North, as well as with individual ethnic households - owners of tribal lands, constitute the main mechanism of subsoil use in the KMAA-Yugra and the YNAA.

OOO LUKOIL-West Siberia production activities affect over 30 areas in the KMAA-Yugra, where Khanty and Mansi people live in a traditional way. Economic agreements on cooperation directly with heads of these territories became one of the most efficient forms of support. In 2016 there were 341 such agreements signed which covered 1,184 people. Taking into account the governmental program of the Khanty-Mansiisk Autonomous Area – Yugra titled “2014-2020 Social and Economic Development of Indigenous Minorities of the North”, the number of such agreements may grow to 380. **G4-OG9**

The Company makes quarterly compensation payments under the agreements and contracts and takes the individual needs of families into account when rendering other types of aid, such as refurbishment of residential houses and other social infrastructure facilities in ethnic communities, the purchase of snowmobiles, mobile power generators and construction materials. Funds were also allocated to organize medical services, develop territories of traditional nature management, and training of indigenous peoples’ representatives in specializations that are in demand.

A number of important social projects were organized in YNAA in 2015 under the agreement with the government of the Area. The construction of a Nursing Care Home for first aid/obstetric services to the indigenous peoples, including nomads, was completed in the Tazovsky district. Women with children are provided with relevant medical care for the whole period of their stay.

OOO LUKOIL-West Siberia helps agricultural enterprises of fishers and reindeer-breeders in the Purovsky district to purchase licenses for these types of activity (under regional laws) which is a significant factor ensuring indigenous minorities of the North have access to traditional wildlife management.

Development of infrastructure that allows the indigenous minorities of the North to sell products of their traditional industries is another branch of support which is important for maintaining the traditional lifestyle. In this regard, the construction of a modular building to receive and process wild-growing herbs began in the Shuryshkarsky district, and mini-units for primary raw material processing were set up in smaller settlements.

LUKOIL cooperates with indigenous people and public organizations of the indigenous minorities of the North, including the Assembly of the indigenous minorities of the North, Yamal to its Descendants! and Save Yugra organizations, and the Union of Deer-Breeders of the KMAA-Yugra.

These organizations convene their own events and participate in forums, round tables, and fairs with the Company’s support. The international research and practice conference was convened in 2015 under the title Regulatory Support and Challenges of the Development of the Languages, Literature, Arts, and Folklore Heritage of the Indigenous Minorities of the North of the Khanty-Mansiisk Autonomous Area. The forum attracted representatives of governmental authorities, Finno-Ugric Peoples’ Consultative Committee, scholars, writers, literary critics, artists, and ethnographers from Russia, Finland, Hungary, and France. The Company also supported the Indigenous Minorities of the North Youth Forum in the village of Russkinskaya (Kar-Tokhi), the inter-regional conference titled Human Being. Oil. Environment. Law, a joint session of the Save Yugra organization and the Public Chamber of the district, etc.

A sightseeing attraction Sacred Lake Numto is being created to preserve the indigenous peoples’ cultural heritage and sacred places in the vicinity of Lake Numto (KMAA-Yugra).

Public Recognition

LUKOIL helps with organizing and convening traditional sports competitions - the Day of Deer-Breeder in Kogalym, the Fisher and Hunter Days, the Oblas (type of boat) Day, and Crow Day in the village of Russkinskaya, settlements Agan, Trom-Agan, Tazovsky, and Tarko-Sale, international oblas rowing race for the KMAA-Yugra Governor Cup. The Company sponsors the Buran-Day snowmobile race and deer team race, the largest festivity of the Nenets Autonomous Area. The race took place for the 20th time in 2016. The festivity has been a national contest since 2010.

In 2015 OOO LUKOIL-West Siberia was named the Company of the Year in the Yugra’s Black Gold regional contest which is convened among fuel and energy companies by the KMAA-Yugra Government. The organization won for the tenth time in the category Work with the Indigenous Peoples and is included in the list of the Most Dynamically Developing Vertically Integrated Companies.

213

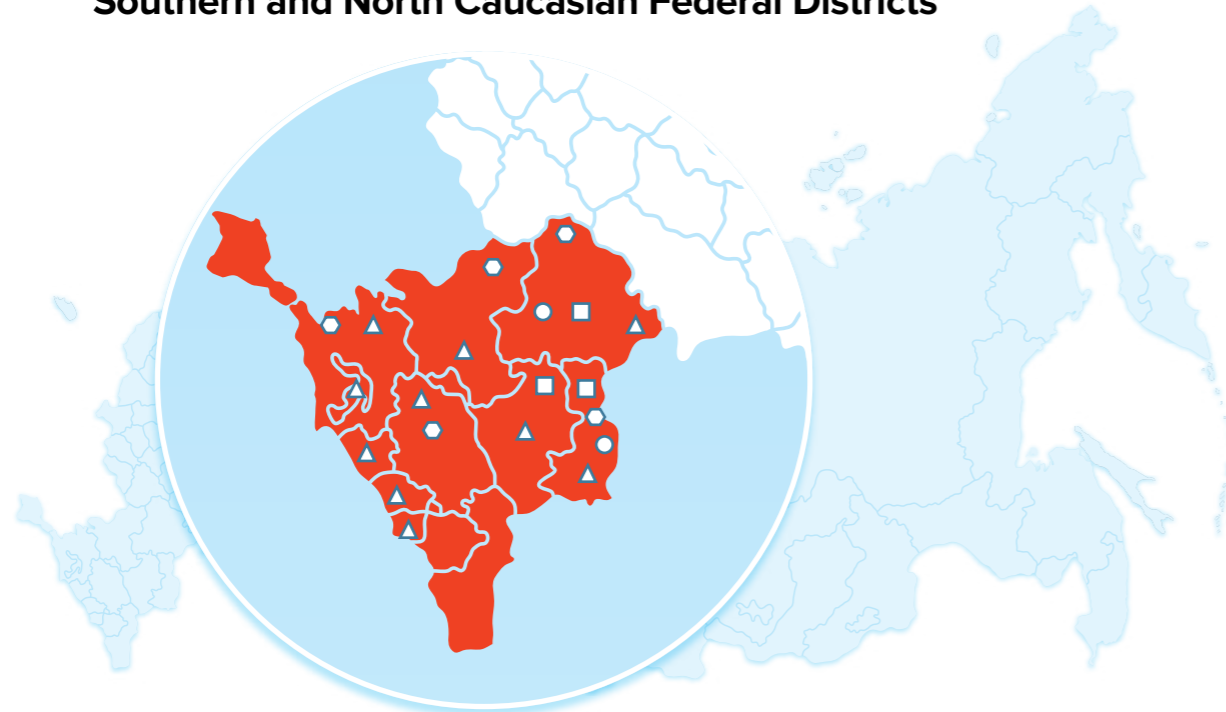
10

victories

were awarded to LUKOIL-West Siberia in the nomination Work with the Indigenous Peoples



Southern and North Caucasian Federal Districts



Upstream	Downstream	Midstream	Power generation
000 LUKOIL-Nizhnevolzhskneft AO RITEK (TMF Volgogradneftegaz)	000 LUKOIL-Volgogradneftepererabotka 000 LUKOIL-Korobkovsky gas processing plant 000 Stavrolen 000 LUKOIL-Yugnefteprodukt 000 LUKOIL-Nizhnevolzhsknefteprodukt 00 LUKOIL-AERO 000 LUKOIL-BUNKER	000 LUKOIL-Trans (TPU RPK Atrakhansky, Volgograd TPU)	000 LUKOIL-Astrakhanenergo 000 LUKOIL-Rostovenergo 000 LUKOIL-Volgogradenergo 000 LUKOIL-Kubanenergo 000 LUKOIL-Ekoenergo 000 LUKOIL-TTK (heat supply) 000 LUKOIL-ENERGOSETI 000 Astrakhan Power Supply Company

ECONOMIC ROLE AND INVESTMENTS

The strategic approach of the Company in the region is the comprehensive development and the most productive use of extracted resources, an increase in output of processed raw stock and products with high added value, and an improvement in the quality of service for consumers of petroleum products. LUKOIL's investment projects are amongst the largest launched by the oil and gas industry in the Southern Federal District, and the Stavrolen plant is a resident of the Budennovsk Regional Industrial Park in the Stavropol Territory.



Achieved

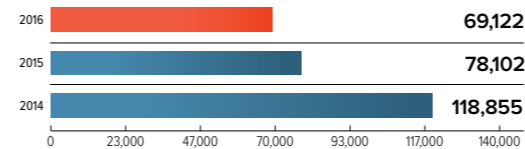
- 1st stage of Filanovsky commissioned (the North Caspian Sea)
- First start-up complex of the gas processing unit (GPU-1) commissioned at Stavrolen.
- APG utilization reached 95%
- Retail fuel sales began in the Republic of North Ossetia – Alania

Planned

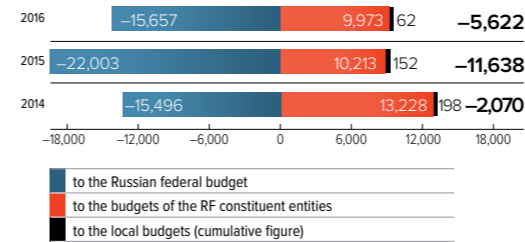
- Commission the 2nd and 3d stages of the Filanovsky and the 2nd stage of the Korchagin field
- Continue the construction of the gas processing facility within the framework of the Regional Project "Conversion of Associated Petroleum Gas from the North Caspian Fields into Polyethylene and Polypropylene"
- Maintain the utilization rate at the aforesaid level during further development of oil and gas fields
- Continue the commissioning of cutting-edge filling stations, offering their customers an extended range of services. Promote sales of gaseous fuels (HGL)

Key Economic Performance Indicators

Investments, million RUB



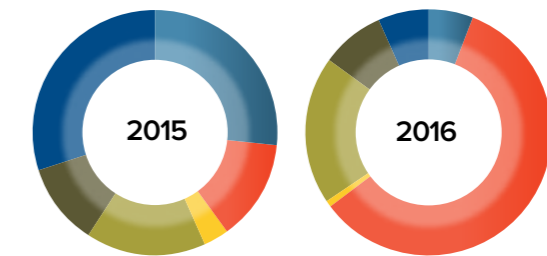
Total taxes paid, million RUB



Note. A consolidated tax payment report was prepared for the LUKOIL Group entities incorporated as legal entities in the Federal District under the applicable law.

Tax refunds exceeded total tax paid due to the export-oriented sales of the products of 000 LUKOIL-Volgogradneftepererabotka and the company exercising its entitlement to a VAT refund from the federal budget.

Socially significant projects/ facilities costs, %



	2015	2016
Social support for population. Orphanages, boarding schools, schools and other childcare centers	27	6
Education	13	59
Healthcare	3	1
Centers of science, art, culture	16	19
Physical training/Sports facilities	11	8
Social and Cultural Projects Contest	30	7

Upstream

Offshore

A 2016 milestone achieved by the Company was the commencement of production at Filanovsky, which is a major field containing over 129 million tons of oil and 30 billion cubic meters of gas reserves recoverable, according to Russian classification. LUKOIL's accumulated investments in the field development totaled 150 billion RUB.

The Y. Korchagin field was commissioned in 2010. The company relies on cutting-edge production technologies, some of which were used by the LUKOIL Group for the first time, including multizone cross-section mapping and smart well technologies. With the help of multizone cross-section mapping technology, additional exploration and local updating of the 3D model of the field at or around the drill site was carried out. This approach helps minimize the environmental impact by cutting back on the number of wildcats being drilled and producing more accurate forecasts.

There are several high-tech supply ships on duty at sea, monitoring safety and security of the oil production facilities. The Bumi Urai and Bumi Pokachi are ships used for cargo and personnel deliveries, and are fitted out with fire suppression systems and oil spill response equipment. The ships are also designed to collect various forms of waste in accordance with the zero-discharge principle. The Bumi Naryan-Mar ship is on duty 24/7 in hydrocarbon production areas and is designed to conduct rescue operations. The ships are of an ice class that enables their use in every season.

In 2016, in the Republic of Kalmykia, the Company commissioned its onshore facilities designed to receive, store, and export oil from the North Caspian fields for its subsequent transfer to the system of the Caspian Pipeline Consortium.

Onshore

AO RITEK operates Korobkovskoye, which is a mature field in the Kotovo District of the Volgograd Region, where it produces high-quality crudes. To enhance oil recovery, the Company has tried and tested new types of equipment designed for smaller or mature fields.

In 2015, three wells were used as testing grounds for highly corrosive resistant equipment (fiberglass sucker rods), offering lower energy demand, increased durability, and other benefits. The new equipment makes it possible to run downhole equipment to depths that are greater on average by 240–300 m. The tests yielded the following results:

- Over 7 months, the incremental oil production from the three wells totaled 795 thousand tons;
- energy consumption was reduced by a factor of 2.9;
- pump efficiency grew by 15%.

Another discovery was the possibility to run sucker-rod strings another 2,000 m down, thus increasing the withdrawal of fluid even further. In 2016, the equipment was commissioned at a further three wells.

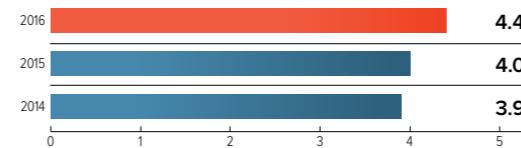
The Company proceeded with the testing of a trial batch of 10 units designed to pump oil out of low and average flow wells with crude viscosity up to 200 cP and running depths of 1,500 m or less.



Key Operational Indicators

Production of raw hydrocarbons (OOO LUKOIL-Nizhnevolzhskneft, TMF Volgogradneftegaz of AO RITEK)

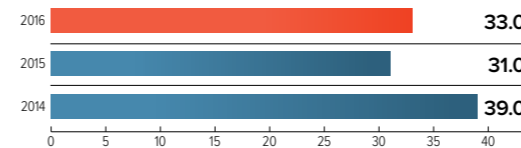
Oil production, million tons



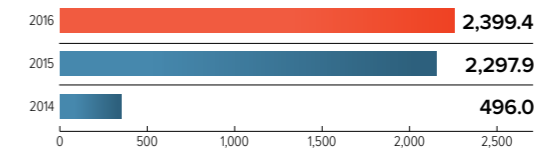
2016

witnessed start of the V. Filanovsky field commercial operation

Oil transshipment, million tons (Astrakhan harbor transshipment center)



LUKOIL Group's natural gas and APG production, million cubic meters



Refining and Petrochemicals

OOO LUKOIL-Volgogradneftepererabotka is the largest producer of fuels and lubrication in the Southern Federal District, employing over 2 thousand people. In 2016, it reached a conversion rate of 92% and processed a total of 12.8 million tons of oil.

The assortment of products produced by OOO LUKOIL-Volgogradneftepererabotka features about 70 high-quality petroleum products, such as high-octane Euro 5 motor gasolines and diesel, bitumens, liquefied gases, petroleum cokes, including calcined ones, and vacuum gas oil.

2016 saw the completion of one of the most crucial projects: the construction of a vacuum gas oil processing facility, incorporating mild cracking, hydrogen and elemental sulphur generation units. LUKOIL invested 84 billion RUB in the project. The commissioning of the facility enabled the Company to increase its output of high-grade motor fuels, and create about 100 additional jobs.



"This is a new cutting-edge facility that meets the most stringent environmental standards, which is essential for the Volgograd Region".

D. Medvedev,
Head of the Russian Government

In 2015, the refinery also commissioned its ELOU AVT-1, a crude distillation unit with an annual crude capacity of 6 million tons, thus increasing the refinery's crude capacity by 3 million tons annually.

The consistent implementation of environmental measures has enabled the Company to lower its gross emissions of pollutants since 2015. It entirely shut down the sludge reservoirs in Volgograd and created a protective belt of greenery in the refinery's

sanitary protection zone. These measures helped improve the environment of the adjacent residential estates. The Company holds regular public hearings on environmental and nature conservation matters. The parties to the hearings include regional authorities, leading environmentalists, researchers, and heads of the regional divisions of federal environmental and supervisory agencies.

OOO Stavrolen is the backbone enterprise in Budennovsk that is strategically important for the economic development of both the east of the Stavropol Region, and the entire Territory. The Company's operations have a profound impact on the level of employment. As the plant develops, it creates additional jobs, provides consistent work for construction, installation, and other local contractors.

In 2016, the Company put into operation the first start-up complex of the gas processing unit (GPU-1), being a part of the Regional Project "Conversion of Associated Petroleum Gas from the North Caspian Fields into Polyethylene and Polypropylene", which is one of the largest investment projects both in the Stavropol Territory and Russia as a whole. Not only does it lay the solid groundwork for economic growth in the Stavropol Region, but also serves as an example of successful and consistent investment decisions by the Company that resonate nationwide.

The project will enable the full utilization APG from the North Caspian offshore fields and provide OOO Stavrolen with its own raw stock. Some APG will be processed into polyethylene and polypropylene, which will, in turn, drive the development of plastic processing SMEs, create new jobs, and contribute to the region's growing economic potential.

LUKOIL'S INVESTMENTS INTO THE PROJECT
NEARED 7 BILLION RUB.



"Completing this major investment project was particularly symbolic at the beginning of the Company's anniversary year as, not only was it a landmark event for the region, but also is a stellar example of consistent, and intelligent nationwide investment decisions".

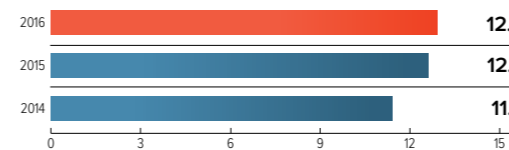
A. Dvorkovich,
Deputy Head of the Russian Government

2016 marked the 50th anniversary of the OOO LUKOIL-Korobkovsky Gas Processing Plant, an enterprise to which quite a number of Kotovo residents have dedicated their professional lives. The plant processes APG and condensate supplied from the fields in the Volgograd Region. The products of the Korobkovsky gas processing plant primarily find their uses in the Volgograd Region (to provide household and motor transport utility needs), and are also supplied to the Stavropol and Krasnodar regions and other regions with petrochemical enterprises for the production of rubbers, polyethylene and other products.

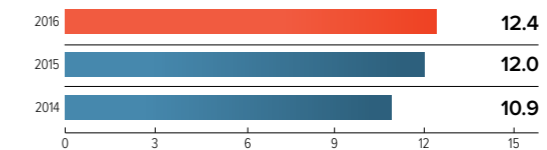
Key Operational Indicators

Oil refining: OOO LUKOIL-Volgogradneftepererabotka

Refining output, million tons



Petroleum product output, million tons



Indicators	2014	2015	2016
Gas processing: OOO LUKOIL-Korobkovsky Gas Processing Plant			
Petroleum gas processing, million cubic meters	419.0	424.3	374.7
Natural gas treatment, million cubic meters	14.3	9.9	43.5
NGL processing, thousand tons	80.5	78.9	63.5
Petrochemicals: OOO Stavrolen			
Raw stock processing, thousand tons ¹	181.4	697.5	835.6
Commercial products	141.3	513.1	706.6
Petroleum gas processing, million cubic meters ²	–	–	1,259.1

¹ Since 2012-2014 the processing indicator has taken into account all the feedstock on the balance sheet (hydrocarbons, acetic acid, reagents, sooty concentrate). In 2010, hydrocarbons and acetic acid were taken into account. In 2011, hydrocarbons, acetic acid, and sooty concentrate were taken into account.

² The gas processing facilities were commissioned in 2016.



12.8

million tons

of oil were processed at the LUKOIL-owned Volgograd refinery, the largest producer of fuels and lubricants in the Southern Federal District

Petroleum Product Sales

OOO LUKOIL-Yugnefteprodukt has a developed infrastructure for the sale of petroleum products in small wholesale from its own bulk plants, and also offers bitumen products from the refineries of the LUKOIL Group. The infrastructure includes seven bulk facilities (three in the Krasnodar Territory, two in the Republic of Adygea and the Stavropol Territory) and more than 230 filling stations. The Staromaryevka bulk plant is one of the most state-of-the-art petroleum depots in the Stavropol Territory. Among consumers of its products are the industrial enterprises of the region Adler CHP, agricultural producers, and independent filling station and bulk plant owners.

One of the major objectives of the Company is the renovation of existing filling stations and the construction of new ones. In 2016, it commissioned five filling stations, and overhauled or upgraded nine. The Company also plans to develop its fully automated filling stations, which it views as an ideal solution for larger cities. Eight such stations already operate in Krasnodar and Sochi. A great deal of attention is being paid to the promotion of non-fuel products and services, including food services.

The production processes that are related to quality control of incoming products are fully automated. They are monitored from the headquarters in Krasnodar. Within each bulk plant there is a laboratory that meets the existing international standards. The laboratories conduct quality control tests on the incoming fuels supplied by manufacturers. If any issues are identified, a mobile laboratory can be dispatched to filling stations. Motorists are provided with data on the name, grade, ecological class of fuel, certificates of conformity and quality control certificates upon request, and benchmark fuels can be used to verify the characteristics.

In 2016, the Company expanded its facilities to treat ECTO-fuels at the bulk plants, which resulted in a 48% increase in the sales of premium fuels, with the share of such fuels in retail sales being 64%.

OOO LUKOIL-Yugnefteprodukt is an innovator in the application of renewable energy technologies. The first solar powered filling station was put in operation in Sochi's Krasnaya Polyana. Another filling station, in Anapa, has installed heat pumps, which are used for heating or cooling down of the premises, which substantially lowers energy consumption. The projects met the expectations of the Company, taking into account the fact that initially the task was not to meet 100% of the energy needs of the stations. "Green" energy is used mainly for internal and external lighting of the filling stations, and to support the station's operations in case of a disruption of external power supply.

“It's an honor that the Krasnodar Territory is being viewed as an attractive investment forum by such big players in the domestic fuel and energy sector. And note that this serves to promote not only economic, but socially significant projects as well. We have to not merely built filling stations, but have developed the region's motorway service infrastructure as a whole. We must offer high quality services to anyone choosing Kuban as their vacation destination”.

Veniamin Kondratyev,
governor of the Krasnodar Territory



> 450
filling stations

form part of the LUKOIL Group in the Southern Federal District and the North Caucasian Federal District

Presence of LUKOIL's Filling Stations in the Region

Southern Federal District	2014	2015	2016
OOO Yugnefteprodukt			
Krasnodar Territory	142	144	146
Republic of Adygea	21	21	21
OOO LUKOIL-Nizhnevolzhsknefteprodukt			
Astrakhan Region	33	33	33
Volgograd Region	119	118	118
Republic of Kalmykia	6	6	6
Rostov Region	75	75	75
Total	396	397	399

North Caucasian Federal District	2014	2015	2016
OOO Yugnefteprodukt			
Stavropol Territory	47	47	47
Karachay-Cherkess Republic	10	10	10
Kabardino-Balkar Republic	13	13	13
Republic of North Ossetia – Alania	–	–	2
Total	70	70	72



THE FIRST SOLAR POWERED FILLING STATION WAS PUT IN OPERATION IN KRASNAYA POLYANA, SOCHI.

Heat and Power Generation

Between 2015 and 2016, OOO LUKOIL-Kubanenergo carried out major investment projects to retrofit its equipment, complete the decommissioning of outdated and uneconomical non-package CHP equipment. The Company's Energy Management System successfully passed ISO 50001: 2011 recertification.

In 2015, the Company adopted a new shop-free structure that relies on Fortum's best practices, i.e. completed preparations for introduction of the Maximo maintenance and repair program.

OOO LUKOIL-Energoengineering completed major investment projects, constructing the following CSA facilities: 110 MW SGP, 235 MW SGP in Astrakhan, 410 MW SGP in Krasnodar and 135 MW SGP in Budennovsk.



G4-14

Environmental Protection

OOO Stavrolen pays a great deal of attention to environmental issues. The Company has created a modern system of environmental monitoring for all types of impact and, as stipulated by environmental legislation, equipment is being modernized.

The Company's laboratory has been certified as ISO-ILAC-IAF competent by the Analitika Association of Analytical Centers (Moscow), which confirms the quality of its work and its compliance with established criteria and indicators. In terms of its technical capacity, the laboratory is one of the best in the Stavropol Territory and consistently makes it into the top five of the "For Measurement Precision" competition in the category of inter-lab comparative tests of potable, natural, and waste water, carried out by the Analytical Water Quality Center of ZAO ROSA (Moscow), for labs in Russia and the near abroad. In 2015, as part of its production and environmental control effort, it purchased cutting-edge gas analyzers to determine the concentrations of oxygen (O₂), carbon oxide (CO), nitrogen oxide (NO) and sulphur dioxide (SO₂) in flue gases.

Landscaping and preservation of vegetation in the arid Kuma Region is one of the key environmental challenges that the Company faces. In 2015, with the participation of young specialists of the plant and pupils of the House of Children's Creativity youth center, seedlings of trees and shrubs were planted in the 6th, 7th and 8th housing districts and in the central part of the city.

OOO Stavrolen is located on the eastern bank of Lake Buivola. Understanding the significance of the reservoir for the local population and the natural environment of the Prikumye, in 2014 and 2015, at the initiative of the Company, specialists and scientists from the North-Caucasus Federal University conducted a comprehensive study of the lake for the first time in order to assess its ecological state (water quality and living organisms) and recommendations have been made to maintain the ecological balance of the lake in the future. **G4-14**

The study revealed that the production facilities of OOO Stavrolen have no adverse impact on the lake's ecosystem due to the isolation of the water withdrawal and water disposal systems of the enterprise. The researchers noted a high species diversity of aquatic and semi-aquatic flora and fauna, thus classifying the lake as a stable ecosystem. According to hydrobiological indicators, the lake's water is fit both for recreation and fish breeding.

OOO Stavrolen adheres to the policy of openness and transparency, and demonstrates a willingness to maintain a constructive dialogue with every stakeholder. The findings of the research conducted by the researchers with the North-Caucasus Federal University were brought to public notice and reviewed in August 2015 at a meeting attended by the representatives of the Ministry of Natural Resources and Environmental Protection of the Stavropol Territory. Between 2015 and 2016, at the initiative of PJSC LUKOIL and OOO Stavrolen, Budennovsk hosted conferences on the Company's operations in the Federal District which was attended by the representatives of the Company's subsidiaries, legislative and executive authorities of the Stavropol Territory and Budennovsk, members of the public and media. The conference attendees considered such

events useful and noted the Company's eagerness to engage in dialogue.

OOO Stavrolen continued with its environmental outreach to children and teenagers. It held multiple environmentally-oriented events, engaging students of the Kuma Region's educational institutions and Bumblebee environmental patrols, such as the Best Bird Box, environmental readings titled Topical Environmental and Nature Management Issues, celebrations of the Day of Water and the Day of Land, district-level phases of the national campaigns Alley of Russia, Plant a Tree, or the Green Wave National Cleanup Day.

The largest outreach event is the Best ECO Project, which is a competition started in 2012 by OOO Stavrolen. Between 2015 and 2016, the winning projects brought together 143 school students, 38 kindergarten pupils, 87 further education students, 38 parents and 26 educators.

OOO LUKOIL-Nizhnevolzhskneft traditionally helps organizations of the Astrakhan Region and the Republic of Kalmykia in implementing their environmental initiatives.



> 300
people

participated in the Best ECO Project contest in 2015–2016

Examples of projects receiving support of OOO LUKOIL-Nizhnevolzhskneft

Entities	Activities
All-Russian Society of Nature Conservation	Nature conservation measures in 2015. Make films about the nature of the Caspian and its unique fauna
Environmental foundation	Hold the annual "Vobla" fishing festival. At the request of the locals, the Akhtubinsk District hosted the "Vobla Plus" festival for the first time in 2016.
Ilmenno-Bugrovoy public nature reserve	Support the nature reserve's operations
Astrakhanskoye hunting reserve	Nature preservation challenges and ways to overcome them
Astrakhan reserve museum	«Cycling stories», a biking route
Blackland state biosphere nature reserve	Raise environmental awareness of the rural community to preserve the region's unique wildlife and population of saiga in the north-west of the Caspian Sea Region
Union of fisheries and fish canneries Caspfish	Support schools' Blue Patrols engaged in the preservation of fish young

Environmental Initiatives

Since 2007, LUKOIL has held its annual environmentally themed children’s drawing competition, titled Clear Perspective, in the Astrakhan Region, with contestants spanning the first five school grades. Over the years, more than 3 thousand kids have submitted their artistic works. Since 2016, the contest has been opened up to include the school students in the Stavropol Territory. In 2016, winning certificates were awarded to 150 contestants.

The Social and Cultural Projects Contest is also aimed at supporting environmental initiatives proposed by non-profit organizations in the Southern Federal District.



“Next year is the year of ecology, which adds to the significance of the event, and I think the kids got a feel of it. Each drawing is an expression of great fondness and affection for their homeland. And it’s great! It is quite remarkable that companies like LUKOIL are so environmentally minded”.

Aleksandr Klykanov,
Deputy of the Russian State Duma,
member of the Clear Perspective jury

Examples of projects receiving support as part of the contest

Entity	Project description
Bogdinsko-Baskunchaksky public nature reserve	Create artificial nesting grounds for birds of prey, improve their habitats, and establish a tour circuit that will help promote environmental tourism
Government agency of Kalmykia Nature Park	Lay out a nature’s nook in the Nature Park’s visitor center
Government agency of Kalmykia Wildlife Center	Monitor the saiga population in the North-West of the near-Caspian region, raise public awareness of the challenges in preserving the saiga or other endangered animal species, combat poaching
“Mir” children’s center in the village of Karsny Yar	Environmental education of the locals (above all, the youth) on the basis of the Krasny Yar library; set up a young environmentalist workshop, where students get to make things out of household waste

Social Programs and Projects

Partnerships with the Areas where the company is present

LUKOIL and subjects of the Federation in the Southern and North Caucasian Federal Districts, and the authorities of Budennovsk have signed cooperation agreements to promote economic development, improve the investment climate and environmental situation, and address the social challenges faced by the territories. The mechanisms of these agreements allows for the coordination of economic, environmental, and social aspects of the territories and the development plans of the Company.



Discharge of obligations assumed under agreements with Russian regions (examples) G4-EC7



Astrakhan Region	<ul style="list-style-type: none"> In 2015, monuments commemorating Victory in the Second World War were renovated, including the Victory Boulevard in Astrakhan, and the central square and fallen heroes monument in the village of Liman. Renovation of a sports facility is under way in the Ikryaninsk District, with the project scheduled for completion in 2017. In education, a major project was carried out to fit out the classrooms of the Oil and Gas Institute within Astrakhan State Technical University with field development simulators and software. The beautification of the Volga embankment, a place favored by both residents and visitors of Astrakhan alike, is being carried out.
Volgograd Region	<ul style="list-style-type: none"> 2016 saw renovation and construction of socially significant facilities in the region, including the municipal children’s and youth center in Volgograd
Krasnodar Territory	<ul style="list-style-type: none"> LUKOIL supplies the economic sector of the Krasnodar Territory with petroleum products, contributes to social and economic programs designed to promote employment in the region and develop its infrastructure
Stavropol Territory	<ul style="list-style-type: none"> A socially significant project for the construction of a new sports and recreation complex with a seating capacity of 770 is being implemented in the region, which includes an ice skating rink, a swimming pool, gyms, and a health rehabilitation center. The Stavropol Territory has for a second time hosted the interregional forum of artistic unions titled White Acacia. Its program included literary encounters, movie screenings, artistic workshops, conferences, and round tables attended by renowned men of art. There’s a hope that the White Acacia festival will transform into a brand of the Territory. Following on from the state program Development of PE and Sports in the Stavropol Region, in 2016, OOO Stavrolen allocated funds for the construction of two all-in-one sports grounds in Budennovsk. Beautification of the resort city of Kislovodsk is under way.
Budennovsk	<ul style="list-style-type: none"> Between 2015 and 2016, three children’s playgrounds and two all-in-one sports grounds were built in Budennovsk’s residential estates. Support was provided to the municipal Community Center, Budennovsk children’s school of arts, the municipal Union of Veterans, and other organizations. The premises of university-preparatory school No.7 and kindergarten No.14 Solnyshko were renovated. In 2015–2016, in Budennovsk, a new sports and fitness center, designed to accommodate 600 persons per shift, was built.

Social and Cultural Projects Contest

The Volgograd Region has been hosting the Social and Cultural Projects Contests since 2004, and the Astrakhan Region, since 2005. The Republic

of Kalmykia joined the grants competition in 2008. The Social and Cultural Projects Contest was launched in the Stavropol Territory in 2016.

Contest results

Contest operator	Number of projects				Coverage area
	2015		2016		
	submitted	winners	submitted	winners	
OOO LUKOIL-Nizhnevolzhsk-nefteprodukt			67	28	Volgograd Region
OOO LUKOIL-Nizhnevolzhskneft	80	39	92	35	Astrakhan Region, Republic of Kalmykia
OOO Stavrolen	–	–	50	17	Sovetsk, Stepnovsk and Budennovsk Districts in the Stavropol Territory

The supported projects include:



Centralized municipal library system, Timur and his NEXT team... (Astrakhan)

The goal behind this project was to assist the elderly by developing their computer skills, teaching them how to go on the Internet, and use electronic public services. The project covers 64 retirees taking classes from a team of five volunteer instructors. Between December 2015 and April 2016, they taught a total of 229 hours of classes, attended by 308 students.

Winning the Social and Cultural Projects Contest gave library No.11 a new status and transformed it into a local community and leisure center, which enabled it to expand its work by starting a new club for the elderly "Literary Cinefilm", and more actively working with the municipal authorities in Astrakhan on the resolution of the social issues faced by the local population.



Astrakhan State University, the project "Labyrinth Toy Library" (Astrakhan)

Thanks to the opening of the Toy Library, children from socially vulnerable families are able to use modern educational games, practice their skills, develop inquisitiveness and build their drive for research and experiment in many areas, including robotics.



Astrakhan Regional Research Guidance Center of Folk Culture, Frontline Concert Brigade (Astrakhan)

By reenacting the activities of frontline concert brigades, the project created a theatrical and musical program titled Frontline Concert Brigade, as well as an exhibition of photographs for the veterans of the Second World War and other residents of the Astrakhan Region. In 2015, the program and exhibition were shown in six villages, and there are plans to update them and extend the coverage to include other villages.



In 2016, LUKOIL social project grants in the Volgograd Region were awarded to non-government organizations and funds supporting gifted children in difficult circumstances, medical institutions and veteran organizations. In the Volgograd Region, the Social and Cultural Projects Contest has traditionally placed a special focus on the promotion of patriotism. For instance, in 2015–2016, in the Krasnoarmeysky District of Volgograd, the Company realized an important social project that erected and beautified a monument to four heroes of the Second World War who fought in the Battle of Stalingrad. The site around the monument is now paved, with planted flowers and trees. This is now not only a site for ceremonious and commemorative events, but also a landscaped mini-park.

Charity projects

In 2015–2016, with the assistance of OOO LUKOIL-Volgogradneftepererabotka, Volgograd hosted guest performances by the State Academic Maly Theater of Russia, which was a big event in the city's cultural life. The Company annually supports the International Chemical Conference.

OOO Stavrolen provides yearly charity support to the entities in Budennovsk and the Budennovsk District. The enterprise is particularly concerned about the most important municipal social facilities (kindergarten No.21 Olympiysky, being one of the oldest in the city, Cultural Center, Polymer Sports Club, etc.)

In the reporting period, OOO LUKOIL-Kubanenergo assisted in the renovation of the premises of boarding school I-II for hearing impaired children in Krasnodar, where more than 300 students from all over the Krasnodar Territory are trained. The Company has been consistently supporting and promoting sports in Kuban. In the year of the 70th anniversary of Victory in the Second World War, the Company personnel, jointly with the authorities of the Karasunsky District located in Krasnodar, contributed into the publication of a book titled "They Fought for Us", dedicated to combat veterans from the Krasnodar Region, and energy workers of the Krasnodar CHP.



In 2015–2016,

with the assistance of OOO LUKOIL-Volgogradneftepererabotka, Volgograd hosted guest performances by the State Academic Maly Theater of Russia, which was a big event in the city's cultural life



119

winners

of the Social and Cultural Projects Contest in the Southern Federal District and the North Caucasian Federal District in 2015-2016

Social Events

In 2015, OOO LUKOIL-Yugnefteprodukt supported to the Safety Forecast campaign, a project launched by the regional branch of the Russian Association of Motor Insurers and Road Safety department under the Russian Ministry of Interior, covering over 20 thousand residents of and visitors to the city.

The Company also supported the creation of the interactive theme park "Minopolis", in particular its largest attraction, the "LUKOIL Speedway Track", and also partnered with the Russian circuit racing series on the country's most up-to-date race circuit, the "Sochi Speedway Track".

YUGNEFTEPRODUKT OPENED LUKOIL PLAYGROUND IN THE CHILDREN'S CITY

Educators and psychologists from different countries have long agreed that play is crucial for a child's intellectual and emotional development. This is the very idea that underpins the public space format that is gaining popularity worldwide, i.e. the educational city of professions for children. While playing, children assume different professional roles, getting knowledge and developing skills that will come in handy in adult life (critical thinking, team interaction and work skills, financial literacy, etc.).

There are several such projects in Russia, including the one in Krasnodar (the interactive play park, Minopolis children's city).

OOO LUKOIL-Yugnefteprodukt sponsored the construction of a major playground LUKOIL Speedway Track within the children's city. The five motoring themed stations, i.e. a Filling Station, a Speedway Track, a Car Repair Shop, Driver Training, and a Car Wash have become the main features of the park. Each one of them is an operating interactive model of real-life enterprises fitted out with cutting-edge equipment.

Whilst at the stations, children can try their hand at various professions. For instance, at the Speedway Track, a child, having previously "received" a driving license, can be a driver; the LUKOIL Car Repair Shop provides an opportunity to temporarily be a car mechanic; the LUKOIL Car Wash helps master the craft of the car wash operator and, at the Filling Station, that of a cashier or pump attendant. Young trained instructors work with the children. The instructors are well-versed in safety practices, ways of dealing and communicating with children and trained in every aspect of the game.

In 2016, the LUKOIL Speedway Track was visited by some 80 thousand children.



OOO LUKOIL-Yugnefteprodukt was officially a partner of several major events

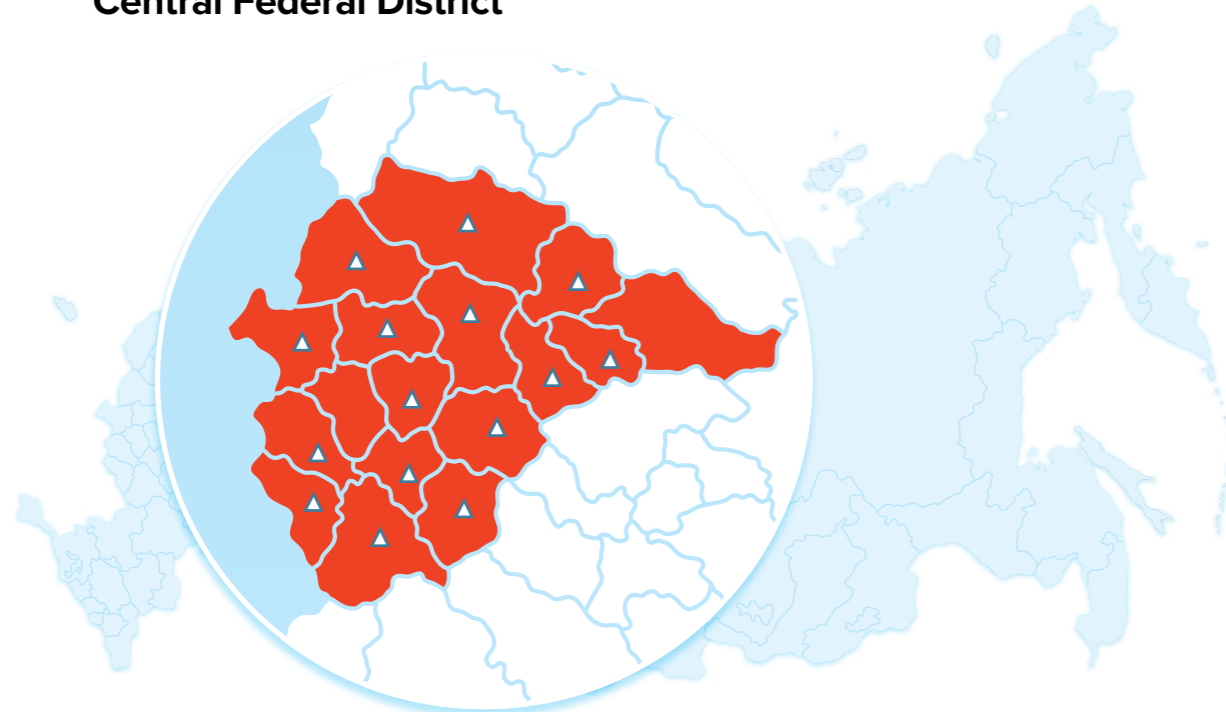
Krasnodar, 2015	Being an eye-catching and vibrant car sound show, DBBATTLE is the first car sound pressure format, developed in Russia. Attendance at the events exceeded 20 thousand, with the audiences coming from Krasnodar, the Krasnodar Territory or specifically driving in from different parts of Russia to watch the season opening. The events had a record number of 350 car owners taking part in different competition formats
Sochi, 2015	International racing events featuring the LUKOIL Racing Team. Customers of LUKOIL filling stations entered the acoustically charged car show, and took part in TCR driver autograph signing and giveaways. Lukoil Racing drivers held a great race at filling station No.59: Sergey Afanasyev and Aleksey Dodukalo had their pictures taken with filling station customers, signed autographs, spoke about their race cars and gave away presents
Sochi, 2016	Yug-MotorShow-2016 customized vehicle festival Visitors to the festival could not only take a look at the cars, but also visit LUKOIL's stand

Public Recognition

OOO LUKOIL-Yugnefteprodukt was recognized as "good corporate citizen". Filling stations No.37 (Sochi) and No.15 (village of Golubitskaya) were awarded the "Best Krasnodar Territory Station" certificates The main evaluation criteria are the dynamics of financial and economic performance indicators, the quality

of products sold, a high level of service culture and the provision of additional services for consumers, health and safety at enterprises, accessibility to individuals with mobility impairments, and the absence of complaints from consumers or supervising authorities.

Central Federal District



- ▲
- Downstream**
- PJSC LUKOIL
- AO RITEK
- OOO LICARD
- OOO LUKOIL-Trans
- OOO LUKOIL-Tsentrnefteprodukt
- OOO LUKOIL-Volganefteprodukt
- OOO LUKOIL-Chernozemyenefteprodukt
- OOO LUKOIL-AERO
- OOO LUKOIL-BUNKER

Economic Role and Investments

The federal district's major businesses are sales companies. A number of LUKOIL Group's management companies are also located here.

In 2015–2016, as part of its cooperation with the Moscow Regional Government, OOO LUKOIL-Tsentrnefteprodukt built and put into operation 17 filling stations. Moreover, the Company was declared winner of an open auction held by the Moscow City Department for Competition Policy resulting in the acquisition of seven filling stations in Moscow. Under the auction's terms and conditions, OOO LUKOIL-Tsentrnefteprodukt undertook to sell liquefied hydrocarbon gas at the acquired stations for at least 25 years.

In 2016, the Company signed a framework agreement on cooperation and technical partnership with GK Morton, Moscow Region's biggest developer, which is valid until 2020. The agreement stipulates that OOO LUKOIL-Tsentrnefteprodukt, being the biggest retail supplier of fuels in the Central Federal District, must undertake to supply petroleum products for the partner's machinery and equipment. From the Company's perspective, this is a positive experience of effecting direct supplies of petroleum products to facilities under construction using the new technology of mobile fueling modules.



In the reporting period, the filling stations and bulk plants of OOO LUKOIL-Tsentrnefteprodukt underwent scheduled maintenance and replacement of outdated equipment in Moscow, the Moscow Region, Smolensk and Tver Regions. The bulk plant in Vidnoye was fully revamped, and the one in Sofrino was upgraded.

To avoid possible negative impacts on the environment, the Company uses state-of-the-art technologies: all new filling stations are equipped with systems for deaeration of fuel vapors and automatic fuel tank overflow monitoring systems; while the filling station dispensers are capable of recirculating vapor from the fuel tanks of vehicles.

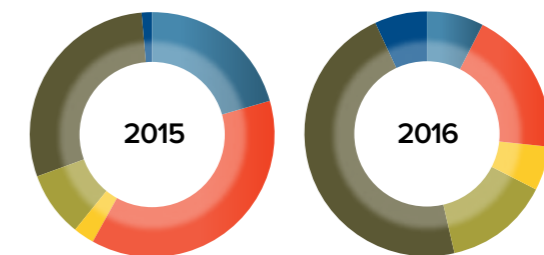
For better service, the Company proceeded with its program of installing Wi-Fi hot spots at all of its filling stations with cafés; there are plans to expand cooperation with new food services suppliers such as Coffee House, Burger King, and McDonald's. In 2016, for ease of payments, another 102 filling stations adopted the post pay system, making a total of 182 stations operating this way.

In 2016, for the first time, the company's filling stations offered a convenient way of paying toll road fees. Drivers can purchase the T-Pass transponder of Avtodor-Toll

Roads at LUKOIL's gasoline stations. The same filling stations offer a top-up service for the transponders.

Since 2015, the Company has engaged an independent contractor to tighten control over the quality of petroleum products that it supplies. It harmonized the tank truck sealing requirements and practices, and is currently in the process of automating its bulk plants, filling stations, and GPS system.

Socially significant projects/ facilities costs, %



	2015	2016
Social support for population. Orphanages, boarding schools, schools and other childcare centers	21	8
Education	37	19
Healthcare	3	6
Centers of science, art, culture	9	14
Physical training/Sports facilities	29	46
Social and Cultural Projects Contest	1	7

Presence of LUKOIL's Filling Stations in the Region

Area	2014	2015	2016
OOO LUKOIL-Chernozemyenfteprodukt			
Belgorod Region	16	15	15
Bryansk Region	10	12	12
Voronezh Region	26	30	31
Kaluga Region	7	8	7
Kursk Region	8	8	8
Lipetsk Region	21	21	19
Ryazan Region	2	2	2
Tambov Region	8	8	8
Tula Region	24	23	24
OOO LUKOIL-Volganefteprodukt			
Vladimir Region	45	44	45
Yaroslavl Region	9	8	8
Ivanovo Region – water-based station ¹	1	1	1
OOO LUKOIL-Tsentrnefteprodukt			
Moscow	114	133	133
Moscow Region	116	121	141
Smolensk Region	16	16	16
Tver Region	9	9	9
Total	432	459	479

¹ Operable during the summer navigation period.



Social Programs and Projects

Partnerships with the Areas where the company is present

The master cooperation agreement between PJSC LUKOIL and the administration of the Moscow Region² expires on December 31, 2018 and will be automatically extended for each next calendar year subject to mutual consent. There are plans to sign cooperation agreements with the governments of the Tver and Tula Regions.

For the Moscow Region, the cooperation priorities are the construction of a petroleum product pipeline to supply light products to the Moscow Region, the expansion of the filling station network, the development of social and sales infrastructure within the territories owned by filling stations, and the creation of a charging infrastructure for electric vehicles.

In 2015, the Government of the Voronezh Region and Open Joint Stock Company LUKOIL Oil Company signed a cooperation agreement, whereby the Company, in conjunction with the regional social programs foundation "Our Future", built a kindergarten with a swimming pool able to accommodate 140 children in Borisoglebsk.

Social projects and events

LUKOIL's subsidiaries operating in the Central Federal District continue to be actively involved in charitable, social and cultural events, and social programs.

Development of social entrepreneurship is one of the most important social programs. As part of this program, filling stations in the Central Federal District set up 33 points of sale for social entrepreneurship products.

In 2015, the LUKOIL Filling station network held a Victory Spring promotion to commemorate the 70th anniversary of Victory in the Second World War, in which the holders of LUKOIL club cards³ were quite active. The winners got free tours to Berlin and had bonus points added to their loyalty cards. As part of the Victory Spring, Every WWII veteran holding a LUKOIL club card, received gift certificates for 70 liters of fuel.

The product marketing organizations within the LUKOIL Group hold regular press tours. For instance, the personnel of OOO LUKOIL-Tsentrnefteprodukt informed journalists of plans to develop motorway service stations (the new multi-function filling station No.244 (the M-4 Don highway). OOO LUKOIL-Volganefteprodukt held an information tour for journalists and bloggers of the Vladimir Region, which followed the route traveled by fuel products from the bulk plant to the fueling nozzle.

In the Central Federal District, the Social and Cultural Projects Contest is held with involvement of the LUKOIL CF and OOO LUKOIL-Volganefteprodukt. In 2016, the contest expanded geographically within the district, by including a new constituent region of Russia, the Yaroslavl Region.



In 2016

six vehicle charging units were installed and put into operation at filling stations in the Moscow Region

Contest results

Contest operator	Number of projects				Coverage area
	2015		2016		
	submitted	winners	submitted	winners	
OOO LUKOIL-Volganefteprodukt	5	2	19	4	Vladimir Region, Yaroslavl Region

² The master agreement setting out the fundamentals of cooperation between the government of the Moscow Region and Open Joint Stock Company "LUKOIL Oil Company".

³ Plastic information and score cards of LUKOIL's Customer Incentivization Program.

CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN INTERNATIONAL ASSETS



70 Upstream

82 Petroleum product supply

78 Refining

84 Lubricant production and sale

The foreign subsidiaries of the Company operate in more than 30 countries, each with its distinctive natural conditions, legislation, and social relations. In a number of countries, LUKOIL is one of the largest investors. The Company's business contributes to economic and social development of local communities.

The foreign entities of LUKOIL Group strictly adhere to international law, the laws of the countries in which they operate and to the terms of contracts, including such areas as HR, environmental protection and market presence.

LUKOIL Group subsidiaries share the Company's general principles enshrined in the PJSC LUKOIL Code of Business Conduct and in the policies that deal with environmental protection, industrial safety and energy efficiency that serve as the basis for the drafting of internal corporate documentation (policies and plans of action). At certain entities, the requirements stipulated in environmental protection and labor health and safety policies are mandatory for both local employees and subcontractors.

While sharing LUKOIL Group's general principles in the sphere of corporate social responsibility and sustainable development, the subsidiaries are at liberty to determine the priorities and scope of their charitable activities and develop programs based on the needs and expectations of local stakeholders. Among the top priorities for charitable programs for local communities are supporting healthcare, sports and educational institutions and carrying out environmental campaigns and programs.

At most of the entities, a stakeholder analysis is conducted and activities are planned to build relations, in accordance with international standards (for example, those of the International Finance Corporation). The entities that are active in upstream hydrocarbon production in the Middle East and Central Asia have channels that local people can use to voice their concerns with regard to the implementation of projects.



> 30
countries worldwide

presence of
the LUKOIL Group
foreign assets



Upstream

LUKOIL performs upstream activities in 11 countries outside Russia. The main works are concentrated in Central Asia and the Middle East.



Middle East

□ **LUKOIL MID-EAST LIMITED**

(Iraq, West Qurna 2)
In 2014, LUKOIL started commercial production from West Qurna 2, one of the world's largest oil deposits. The Company is also involved in the geological survey project at Block 10, located in the vicinity of West Qurna 2.

□ **LUKOIL Overseas Iraq Exploration B.V.**

(Iraq, Block 10 Project)
LUKOIL won the right to conduct a geological survey and start subsequent production at Block 10 in 2012. A seismic survey was carried out following a demining effort, and promising areas were identified for prospective drilling in 2014–2015.

□ **LUKOIL OVERSEAS EGYPT LIMITED**

(Egypt)
In 2011, LUKOIL joined the project to develop the West Esh El-Mallaha (WEEM) field, located in the Eastern Desert close to the city of Hurghada, and considerably intensified the ongoing effort. Eshpetco is the Egyptian party to the project.

Jobs for the local population

The entities active in the Middle Eastern region are focused on improving the life of the local population in the areas of their operation, particularly on boosting the skills of local professionals, which promotes

the well-being of families. Priority objectives in the sphere of social responsibility are:

- maximum involvement of the local population (local workforce, contractors, resources);
- training of local workers to work at the field, improving workers' skills.

At LUKOIL MID-EAST LIMITED a system of continuous training and mentoring is in place, which helps local people find work as supervisors and engineers. Together with its partner, Basra Oil Company, LUKOIL has developed and introduced a new employment model for local staff through the Central Employment bureau. At West Qurna 2 LUKOIL Mid East coordinates employment of local people and ensures that jobs are distributed proportionally among locals from different tribes. The entity provides regular consultations to its contractors in order to promote the introduction of transparent and efficient mechanisms for employment or dismissal.

Share of local population in employment as of the end of 2016

Companies	%	Note
LUKOIL MID-EAST LIMITED (total share of local population employed by the operating company and its contractors)	70	Each contract between the operator and its contractors has provisions that obligate the latter to give priority to local people during the employment process.
LUKOIL Overseas Iraq Exploration B.V.	5	The BOHAI drilling contractor, which currently operates Block 10, employs over 80 local inhabitants in accordance with the established procedures via the social subcommittee.
LUKOIL OVERSEAS EGYPT LIMITED (EGYPT)	98	The share of local staff at contractor entities is 100 percent.

Environmental protection

The activities of subsidiaries operating in the Middle East are based on strict adherence to the legislation of the countries in which they operate and to the terms of contracts. Guided by the company-wide principles of social responsibility and sustainable development, the entities pay special attention to the safety of their workers and the population inhabiting areas close to business facilities, while conducting nonstop monitoring of environmental impact.

A fully autonomous movable laboratory was purchased for day-to-day environmental monitoring at the West Qurna-2. The laboratory can be deployed within one hour to perform quick measurements of all environmental components from the continuous monitoring of weather and atmospheric conditions and physical impact factors to complex chemical analysis of water and soil.

Thus, the Company's subsidiaries have stricter approaches to environmental protection than local laws mandate. Legislation of the Republic of Iraq does not regulate total atmospheric emissions for corporate entities, and no regulation of pollutant emissions is stipulated in the laws of the Republic of Egypt. Experts from the relevant departments at the subsidiaries provide oversight of contractors' activities.

Major goals in environmental protection

LUKOIL MID-EAST LIMITED (Iraq)	LUKOIL Overseas Iraq Exploration B.V. (Iraq)	LUKOIL OVERSEAS EGYPT LIMITED (Egypt)
<ul style="list-style-type: none"> • Nonstop monitoring of the environment at and near the field, creation of environmental monitoring databases using geoinformation systems. • Arrangement of the effort to decontaminate and/or recycle oil-containing or hazardous waste. • Remediation of disturbed land. • Removal of historical landfills within the West Qurna - 2 project allotment 	<ul style="list-style-type: none"> • Environmental monitoring by way of direct measurements of water, air, and soil quality and noise level at Block 10. • Control over the receipt of work permits by contractors. • Monitoring of solid and liquid waste utilization. • Arrangement of solid waste sorting for recycling. • Using aerobic bacteria, not chemicals, to treat service wastewater 	<ul style="list-style-type: none"> • Increasing the level of tank water disposal to 100%. • Monitoring of radioactivity of the extracted water and maximal eliminating of related consequences. • Regular monitoring in conjunction with the National Center for Nuclear Safety and Radiation Monitoring of Egypt. • Performance of activities to reclaim polluted soils

Waste Disposal

Waste disposal is an urgent issue in the Republic of Iraq which results in heightened attention that this issue receives from the two entities.

Since the production start at West Qurna 2, LUKOIL MID-EAST LIMITED has established a system of separate waste collection and disposal. New waste storehouses were built at the field to meet the industrial needs for several years to come. The storehouses are waterproofed using high strength polyethylene, which completely prevents the sludge or off-spec oil from impacting the soil or groundwater. The storehouse area is included in the environmental monitoring program.

The Company's subsidiaries operating in the Middle East have gathered a large amount of data on all environmental components. The absence of significant criticisms leveled at the subsidiaries for their activities by environmental watchdogs is an important achievement.

LUKOIL Overseas Iraq Exploration B. V., which is engaged in the exploration of Block-10, was granted permission by Basra Oil Company to build its own landfill for the disposal of municipal solid waste (MSW), which meets international standards. The landfill features secure soil insulation from the waste impact. The landfill became the only officially authorized area for the collection and disposal of MSW at the 5600-square-meter Block 10. The entity also found a contractor to dispose of the scrap metal that accumulates as part of operations. The first batch of scrap was shipped off in 2016.

Background radiation monitoring

At the Rabeah and Rabeah Est fields, LUKOIL OVERSEAS EGYPT LIMITED conducts background radiation monitoring in conjunction with the National Center for Nuclear Safety and Radiation Monitoring, as well as environmental monitoring. This needs to be done due to the radioactivity of the water produced.

The entity mounted special tanks to prevent drainage of oil-containing liquids during the ongoing major well repairs as well as during technological operation. A special evaporation pool was completed featuring an underlying layer of plastic to prevent water coming in contact with soils.

The entity also monitors noise and light levels in cooperation with the Egyptian Center of Power and Environmental Studies.

Resolution of allotment issues

LUKOIL Group entities take part in the resolution of social issues within the area of their presence, if needed. Issues related to the allotment and use of land plots were especially tense during the implementation of West Qurna 2 due to the fact that the contract area was home to around 80,000 people and 300,000 more lived in areas close by. Even though the land was property of the state, local people used it extensively for farming and pasturing.

LUKOIL MID-EAST LIMITED conducted a land inventory, made a land use registry and developed a procedure



to reimburse residents for the damage as a result of the field exploration and production. Since 2011, the government has paid the farmers around \$77 million. Thus, for the first time in Iraq's history local residents have received compensation for the land that they used without owning.

Support of Local Communities

The entities operating in the Middle East pay a lot of attention to raising the quality of school education, furnishing medical establishments with modern equipment, and developing youth sports.

In the reporting period, LUKOIL MID-EAST LIMITED provided computers, furniture and equipment, and also organized supplies of drinking water to 31 schools, funded mobile classrooms, renovated the Dijla secondary school for girls, where it also purchased classroom equipment and built playgrounds.

In addition, medical equipment for six medical clinics and 2,000 containers for garbage collection for the municipality of Huwair were purchased, and the roads in the Summom settlement were repaired.

A special focus is given to sports development: during the time of its implementation, the project saw the construction of six football fields, the purchase of equipment and uniforms for the Huwair and Madana sports clubs and the annual support of sports tournaments.

Central Asia

In terms of corporate responsibility and sustainable development, Central Asian subsidiaries focus on minimizing negative impacts on the environment,

implementing social projects aimed at improving the quality of life for local people, and building relations with local communities.



□ **Karachaganak Petroleum Operating B.V.¹**

(Kazakhstan)
In 1997, LUKOIL joined the project to develop the Karachaganak field in the Republic of Kazakhstan, which is one of the world's largest oil and gas condensate fields. The entity operates under the Final Production Sharing Agreement which is valid for 40 years.

□ **OOO LUKOIL Uzbekistan Operating Company**

(Uzbekistan)
LUKOIL's gas project operator in the Republic of Uzbekistan is engaged in geological surveys, and the production and processing of natural gas. The Khauzak-Shady-Kandym, South-West Gissar and Aral projects are implemented on the basis of production sharing agreements.



It is an achievement

that, in the last decade OOO LUKOIL Uzbekistan Operating Company has had no environmental accident or incident, and has not been fined by or been subject to complaints from executive authorities.

¹ Karachaganak Petroleum Operating (KPO) is a consortium of companies joined to implement the Karachaganak project in the West Kazakhstan region, the Republic of Kazakhstan, one of the world's largest oil and gas condensate fields. Shell, Eni, Chevron, LUKOIL, KazMunaiGaz hold different stakes in KPO. LUKOIL Overseas Karachaganak B.V., LUKOIL's subsidiary, represents LUKOIL's interests in the Karachaganak project.

Principal environmental protection activities

Karachaganak Petroleum Operating B.V.	OOO LUKOIL Uzbekistan Operating Company
<ul style="list-style-type: none"> • Plan (program) of environmental protection activities • Industrial Environmental Control Program • Energy saving and energy efficiency activities 	<ul style="list-style-type: none"> • Plan (program) of environmental protection activities • Industrial Environmental Control Program • Targeted plan to preserve biodiversity in the Khauzak-Shady area and Lake Dengizkul (2012–2016)

Environmental Control

GHG reductions and minimization of environmental impact at the technically complex Karachaganak oil and gas condensate field are the key areas of environmental policy of the company.

IN 2015, THREE ENVIRONMENTAL PROTECTION ACTION PLANS WERE DEVELOPED BY KARACHAGANAK PETROLEUM OPERATING B.V. FOR THE DURATION OF THE VALIDITY PERIODS OF EACH EMISSION PERMIT.

Industrial environmental monitoring is carried out at the Karachaganak field, at the border of the sanitary-protective zone, in the nearby settlements, along the route and at facilities of the export condensate line 'Condensate Processing Complex – Bolshoi Chagan – Atyrau'. Air quality is monitored by an independent laboratory (in compliance with the Environmental Code of the Republic of Kazakhstan), which takes samples, performs analysis and takes instrumental measurements.

Introduction of modern technology

Karachaganak Petroleum Operating B.V. has partnered with leading service providers to implement a number of initiatives that aim to improve the management of facilities and pipelines. A unique system of

protection against illegal cut-ins was set up at the Karachaganak-Atyrau pipelines. It uses a fiber-optic cable for the detection of ground vibrations in the vicinity of the pipeline. Two databases on corrosion and equipment inspection were developed and commissioned. These help assess the rate of corrosion formation and determine the required frequency of inspections given the risk factor.

The entity uses advanced methods of non-destructive testing of pipelines such as ultrasonic long-range testing with "directional waves" that help reduce the number of excavations at facilities and to avoid de-insulating pipelines.

Oil sludge neutralization technology

OOO LUKOIL Uzbekistan Operating Company has successfully tested a neutralizing and hardening composition on sludges with varying concentrations of hydrocarbons. The test was conducted at the Khauzak landfill. The efficiency of the formulation used was proved by a toxicity bio-test. The neutralized oily waste was hazard class 4. The treatment received approval of the State Environmental Inspection under the Republic of Uzbekistan's State Environmental Protection Committee.

The sludge neutralization technology was put into operation and can be recommended for use in other projects. Over 370 tons of production facility oily waste was neutralized in 2014-2016. In the future, the technology can help neutralize and dispose of considerable volumes of waste produced at launched facilities in the Gissar fields and at the Kandym Gas Processing Complex.

Action plan to preserve biodiversity

In 2015, OOO LUKOIL Uzbekistan Operating Company developed the country's first action plan to preserve biodiversity at the Khauzak-Shady section in accordance with Performance Standard No 6 of the International Finance Corporation and the provisions of the Ramsar Convention. Under the Plan, power transmission lines were outfitted with bird protective structures, vehicular speed limits were introduced, personnel activities within the water protection areas were limited and bird monitoring was performed, along with other activities to preserve biodiversity. **G4-EN12**

A total of six bird monitoring stages took place. The scope of research depended on the number of bird species and the important stages in the birds' biological cycle.

At the end of 2015, during the autumn migration, the number of birds, including the great white pelican, the white-headed duck and the mute swan, exceeded 20,000, meeting the criterion of the Ramsar Convention.

The Plan was updated in 2016 and agreed upon and approved by Uzbekistan Bird Protection Society. It has been praised by executive authorities and international experts.

Relations with local communities

Karachaganak Petroleum Operating B.V. builds its relationship with the local community in compliance with the standards of the International Finance Corporation. The organization pursues an active social policy. Each year, plans are drafted to implement socially oriented projects that are initiated by local

people through advisory boards and evaluated by the organization.

Special attention is paid to supporting people with disabilities, supplying water to remote villages, supplying potable water in children's institutions and to a general improvement in sanitary conditions of schools in rural areas.

An official procedure for the consideration of grievances and appeals related to the organization's production activities was introduced. Any resident of the settlements located in the vicinity of the field can approach the community relations officer, or send a written message using dedicated forms and mailboxes installed at settlements. The organization will then consider the grievance or suggestion and offer a solution.

Karachaganak Petroleum Operating B.V. regularly puts forward environmental action plans and construction projects for public discussion and approval.

Social partnership programs

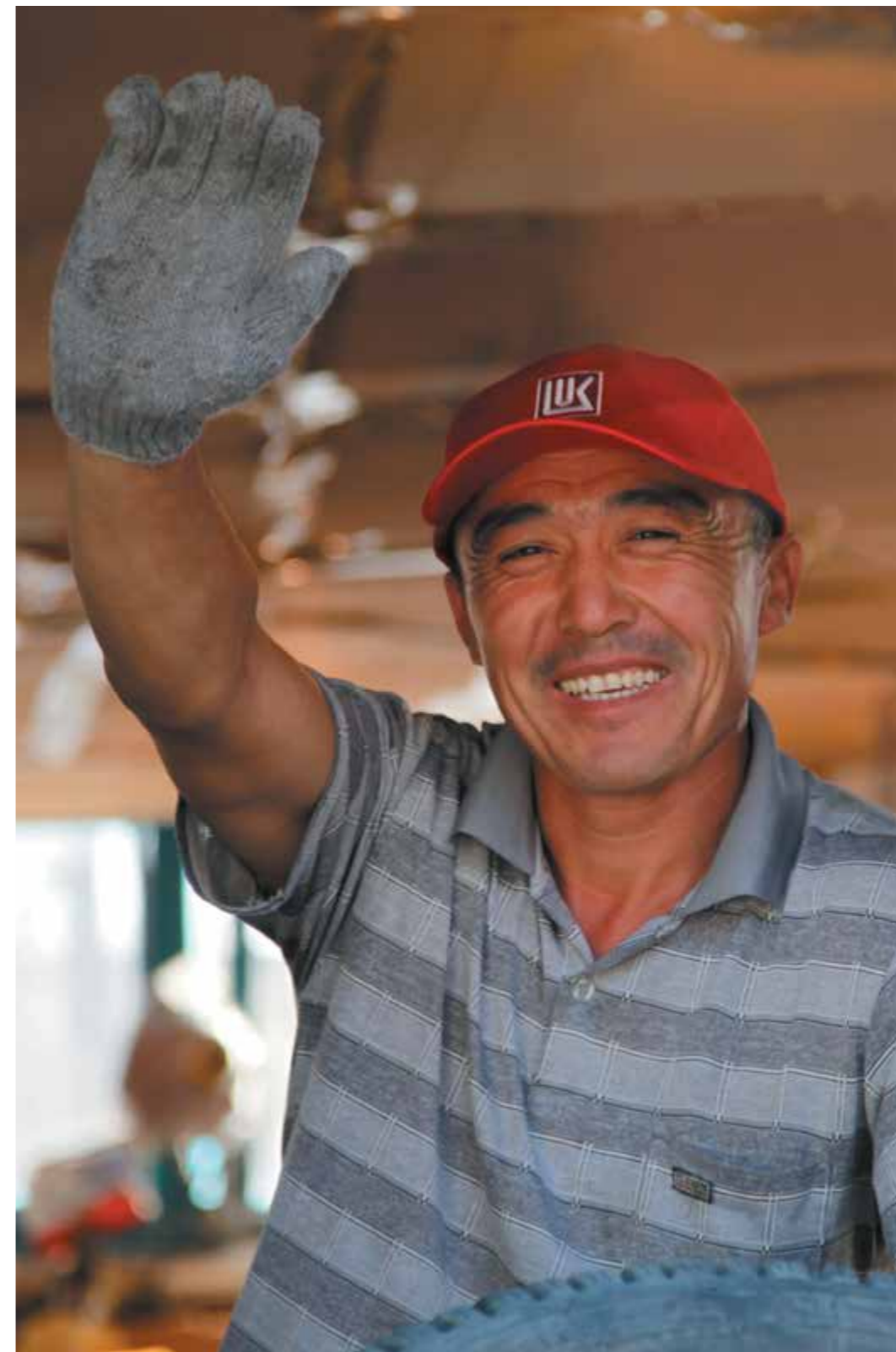
The best known social partnership programs carried out by Karachaganak Petroleum Operating B.V. were Arai (2007–2013) and its continuation Akniet (2013-2015). These represented an initiative of the subsidiary, and not part of LUKOIL's social commitments stipulated in the mining contract.

The Arai program, which began in 2007, distributed grants to Kazakhstan residents to start small businesses in rural areas. The projects of vulnerable residents, who would not be extended a bank loan, were emphasized. The program's six-year run resulted in over 600 new small businesses in the Mangystau and Aktyubinsk regions, including private entrepreneurs who provide various services in rural areas.

The Arai Program received the Paryz Award from the President of Kazakhstan as the Best Social Project, and the Tanym Award from the Kazakhstani Civic Forum, among other prizes.

A similar program called Akniet, or Good Intention, was implemented in the Kyzylordinsk Region (starting from 2013). It retains the approaches of the Arai program (awarding grants for the development of

small businesses), but they have been complemented by the development of social initiatives and social entrepreneurship in the countryside.



> 600

new
small businesses

including sole traders were established during a six-year period in the Mangystau and Aktyubinsk Regions owing to the Arai program



G4-EN12



In 2015,

OOO LUKOIL Uzbekistan Operating Company developed one of the country's first action plans to preserve biodiversity at the Khauzak-Shady section in accordance with Performance Standard No. 6 of the International Finance Corporation and the provisions of the Ramsar Convention

Refining

LUKOIL Group has refineries in four countries outside Russia. The enterprises in Romania, Italy, and Bulgaria are subsidiaries of the Company. LUKOIL has a 45 percent stake in a refinery in the Netherlands.



▲ PETROTEL- LUKOIL S.A.

(Romania)

LUKOIL has been present in Romania since 1998. The Company is currently engaged in Black Sea exploration, processing gains, oil and petroleum product deliveries, fuel sales via a filling station network. PETROTEL-LUKOIL S.A. manages a refinery with nearly 100 years of history. Today it is one of the country's most advanced plants.

▲ ISAB S.r.l

(Italy)

In Italy, LUKOIL is one of the largest Russian investors. Since 2008, when LUKOIL purchased a 49-percent stake in ISAB (which has since been increased to 100 percent), the production of petroleum and petrochemical products, base oils and lubricants has grown. ISAB ranks third in Europe in terms of refining volumes.

▲ LUKOIL Neftochim Burgas AD.

(Bulgaria)

The LUKOIL Group came to Bulgaria in 1999 when it acquired the controlling stake in the country's largest refinery. By developing new businesses and upgrading production, LUKOIL has invested over USD 3 billion in the country's economy.

Refining entities beyond Russia consider rational environmental management an important component of corporate social responsibility and a key component in sustainable development. Three refineries have undergone upgrade programs using the best available technologies and leading European practices. This has resulted, for instance, in a unique conversion rate at the plant in Romania (99.5 percent).

Taking into account the legal requirements in European countries, the subsidiaries pay significant attention to atmospheric emissions, waste generation and management, sewage water quality and energy efficiency.

The plants use integrated management systems that comply with ISO 9001, ISO 14001 и OHSAS 18001, while energy management systems are certified ISO 50001.



LUKOIL Neftochim Burgas AD

The most ambitious plant upgrade project, that saw the construction of a heavy residue processing complex, was carried out in 2012–2015. The facility processes high-sulphur residual tar into light oil of the Euro 6 environmental class, with emissions significantly below normative values. Equipment is characterized by high energy efficiency and more efficient resource consumption.

Biodiversity

The only natural colony of the lesser kestrel (*Falco naumanni*), an endangered species, in the Republic of Bulgaria, was found at the area belonging to LUKOIL Neftochim Burgas AD in 2014. The bird is in the Red List of Bulgaria, Annexes 1 and 2 of EU Directive 2009/147 on conservation of wild birds, and in the annexes of a number of international conventions ratified by the Republic of Bulgaria.

LUKOIL Neftochim Burgas AD has drafted an action plan to preserve this bird species. Together with the "Green Balkans - Stara Zagora" ecological organization and the Bulgarian Society for the Protection of Birds, the kestrels are being monitored within the territory of the plant. Activities planned for 2017 are focused on stabilizing and increasing the colony's numbers. Special houses have been made for breeding pairs and the colony's birds have been ringed.



Charity projects

The main principle underlying the implementation of the LUKOIL Neftochim Burgas AD's charity program is whether the projects are needed by a majority of residents in the two cities of presence, Burgas and Kameno. For them, two playgrounds in Burgas and five in Kameno were built, and repair work that improved the educational environment in the gymnasiums of Burgas was carried out.

The LUKOIL CF is also engaged in charity work in Bulgaria where its priorities are supporting social institutions for the elderly and orphaned children, and offering targeted assistance to residents. LUKOIL's entities in Bulgaria are routinely involved in the Bulgarian President's charity initiative Bulgarian Christmas, which helps raise funds for the treatment of sick children and for the improvement of equipment at children's hospitals.

Relations with local communities

There is a "green line" dedicated to receiving phone calls from residents. The Europe-wide number for urgent and emergency assistance, 112, is also available for people and organizations to use. Grievances are registered and processed in accordance with an established procedure.

PETROTEL-LUKOIL S.A.

The upgrade program of the PETROTEL-LUKOIL S.A. refinery aims to expand production that meets European standards, improve environmental indicators and workplace safety. A Program to increase energy efficiency at processing facilities is also underway. Starting from 2015, all of the plant's processing facilities comply with BAT, or Best Available Technologies. The Action Plan established in the Comprehensive Environmental Permit was completed in 2015.

FROM 2010 TO 2015, ENVIRONMENTAL INVESTMENT TOTALED \$119.3 MILLION.

Environmental education program

Local community-targeted programs aim to develop volunteering and have a considerable focus on environmental education.

The refinery has supported the EcoAtitudine National Project, the largest environmental education campaign in Romania. The project aims to encourage over one million school teachers and students to take part in waste collection projects in order to foster a responsible attitude toward the environment by raising youth awareness about and expanding their knowledge of environmental protection.

AS OF 2016, 51,976 ROMANIAN SCHOOL-LEVEL STUDENTS TOOK PART IN THE PROJECT; 66,495 KG OF PAPER AND CARDBOARD AND 6,434 KG OF PLASTIC WASTE WERE COLLECTED. THE PROJECT WILL RUN UNTIL 2020.



ISAB S.r.l

Production is undergoing upgrades within the frameworks of investment program roadmaps. The major activities aim to:

- upgrade treatment facilities of the Southern Site;
- treat polluted soils and groundwater that accumulated previously;
- reduce waste generation;
- monitor and maintain the "hydraulic barrier system" that protects the water area for which the entity is responsible, etc.;

Charity projects

ISAB S.r.l has supported implementation of charity projects for the entity's workers and their families, and also for people living in local municipalities. These projects include:

- a project for school children in the province of Syracuse, which stages performances and games to explain road traffic rules to children;
- a summer camp for disadvantaged kids from the municipalities of Priolo and Melilli.

Petroleum product supply



LUKOIL Bulgaria EOOD (Bulgaria)

The company is the leader in marketing and distribution of high quality fuels and petrochemical products. The filling station network has around 200 stations, which sell high quality fuels and petrochemical products.



Lukoil Aviation Bulgaria (Bulgaria)

The company provides into-plane fueling at international airports in Bulgaria and in the Republic of Moldova.



LUKOIL Eurasia Petrol (Turkey)

In Turkey, LUKOIL supplies petroleum and gas products, aviation fuel, and lubricants and petrochemical products. The filling station network has over 600 stations.



LUKOIL-Azerbaijan (Azerbaijan)

Since 1995, LUKOIL has been developing its own world-standard network of filling stations. The Company has its own tank farm. It is one of main petroleum product operators on the retail market.

LUKOIL Eurasia Petrol

Short- and-medium term environmental protection programs include the following:

- installation of a Vapor Recovery Unit and the reduction of volatile organic substance emissions, the project is due to be completed in 2018;
- drainage of pure rain water through separate channels before it gets polluted at the tank farm;
- use of tank-cleaning substances with minimal environmental impact.

On- and offshore drills are carried out to prevent possible environmental incidents and accidents; corrective measures are taken as a follow-up. The entity also monitors its consumption of water, electricity and natural gas, the quality of sewage waters, and the emergence of hazardous waste. Waste is collected regularly for recycling.

The company has partnered with Turkey's six largest football clubs to sponsor a project for football fans. They can support their favorite teams by purchasing fuel with special discount cards; a total of 400,000 consumers have joined the program. Since 2015, LUKOIL Eurasia Petrol has been implementing a social project to aid school students from all over Turkey. They have been given stationery, clothes, and sports footwear. Turkish sports clubs have also joined the project.

LUKOIL Aviation Bulgaria EOOD

The main objectives of the medium-term environmental program include the reduction of waste generation and prevention of pollution resulting from emergency situations. The entity has introduced separated collection and temporary safe storage of hazardous waste, while increasing the volume recycled each year.

LUKOIL-BULGARIA EOOD

The entity ensures the proper operation of the Burgas-Sofia main pipeline in accordance with technical requirements and standards in order to ensure the highest level of safety.

In order to achieve this, the entity annually conducts surveys of the pipeline's operational and technical parameters, and applies corrosion protection for the underground sections of pipes and structures. The results of the survey and the required anti-corrosive measures are documented in a report, while problem areas are marked for repairs in the investment program for next year.

In the recent years, over 40 km of the main pipeline built on agricultural land has been re-insulated. Repairs have been made to 14 river crossings totaling 872 m, irrigation channels, rail and motor roads, and 82 new measurement posts and 42 benchmarks.



> 40
km

of the main oil pipeline have been re-insulated over the last few years



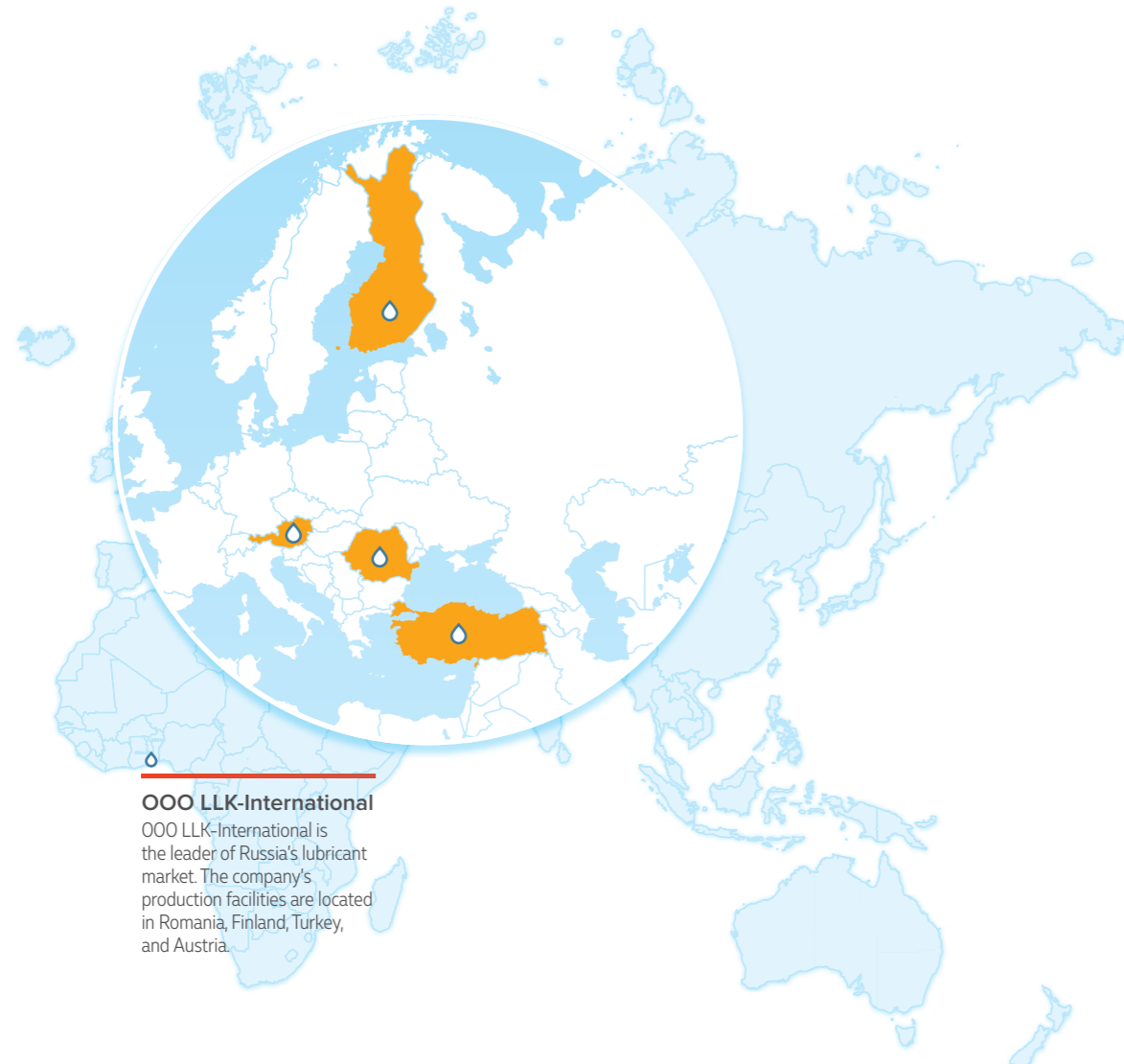
14
crossings

of rivers, irrigation channels, rail and motor roads totaling 872 m were repaired

ZAO LUKOIL-Azerbaijan

Over the past three years, trees and bushes were planted in areas around tank farms and filling stations, covering a total area of 4 hectares, and an inventory was made of hazardous emissions and pollution sources at the entity's facilities. In 2014–2015, pressure vent valves were replaced at 75 tanks to prevent excess emissions of petroleum product vapors.

Lubricant production and sale



OOO LLK-International

OOO LLK-International is the leader of Russia's lubricant market. The company's production facilities are located in Romania, Finland, Turkey, and Austria.

LUKOIL Lubricants Middle East¹ (Turkey)

The Turkish plant is located in the city Aliaga near a major industrial area with the center in Izmir on the Aegean coast. A continuous production flow with optimum automation allows the highly flexible production of a wide range of products and ensures quality. Investment in recent years had led to an increase in the output of packaged oils and the plant's laboratory has been brought into line with new, stricter standards

of the Republic of Turkey. By providing a wide range of products and flexibility in the production of various types of packaging, including those specifically tailored to the needs of customers, the entity has seen a growth in sales both in Turkey and across the Middle East. The entity has a working relationship with technical and professional schools, providing their students with internship opportunities.

¹ LUKOIL Lubricants Middle East Madeni Yag Sanayi ve Ticaret Limited Sirketi

LUKOIL Lubricants Europe GmbH (Austria)

In Austria, LUKOIL owns an industrial and motor oil plant with an output of up to 80K tons of oil per year. The plant is certified with VDA 6.3, the highest standard of the German Association of the Automotive Industry, which helped it to make it into the top five of European suppliers to German carmakers.

Since the plant is situated within the Vienna oil terminal, at the heart of an environmental protection area, it must adhere to strict environmental protection requirements. The plant has implemented a system for managing industrial safety and environmental protection, keeping records of the achievement of goals and key performance indicators, and holding weekly senior management meetings.

Several million euros were spent to fit the plant out with up-to-date equipment, including:

- construction of a pier for oil unloading;
- commissioning of new tanks that meet all modern standards;
- installation of a fully automatic fire alarm;
- transition to a software-controlled storage system and the First Expired/First Out rotation method to avoid long-term storage of additives and suchlike.

In 2016, LUKOIL completed the construction of the lubricant transshipment and storage pier in Vienna, which is comprised of a tank farm and a mooring complex for tanker shipments of base oils.

LUKOIL LUBRICANTS EAST EUROPE (Romania)

One of the advantages of the plant is the flexibility to produce a large number of batches in a completely closed production stream, which ensures the quality of the final product. Raw materials and finished products are transported by way of an automated clean line (purification line), and the components are dispensed using sensors. This ensures the strict quality control of the entire process that eliminates any chance of error. Investments in the past few years to increase the automation of production processes contribute to improving both product quality and the working environment.

New formulas are used in production that were developed through research in accordance with the strictest international standards and market requirements.

LUKOIL LUBRICANTS EAST EUROPE's social responsibility program aims to build long-term youth partnerships. Assistance was provided to PETROTEL-LUKOIL S.A in the planning of the following events: a visit by 45 students of the Ploiești Carmen Sylva school to the production site, the 4th Spartakiad, and a futsal competition between several plants. Future plans include offering internships at LUKOIL LUBRICANTS EAST EUROPE production to local oil and gas institute's students.



Contact Information G4-31


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.



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