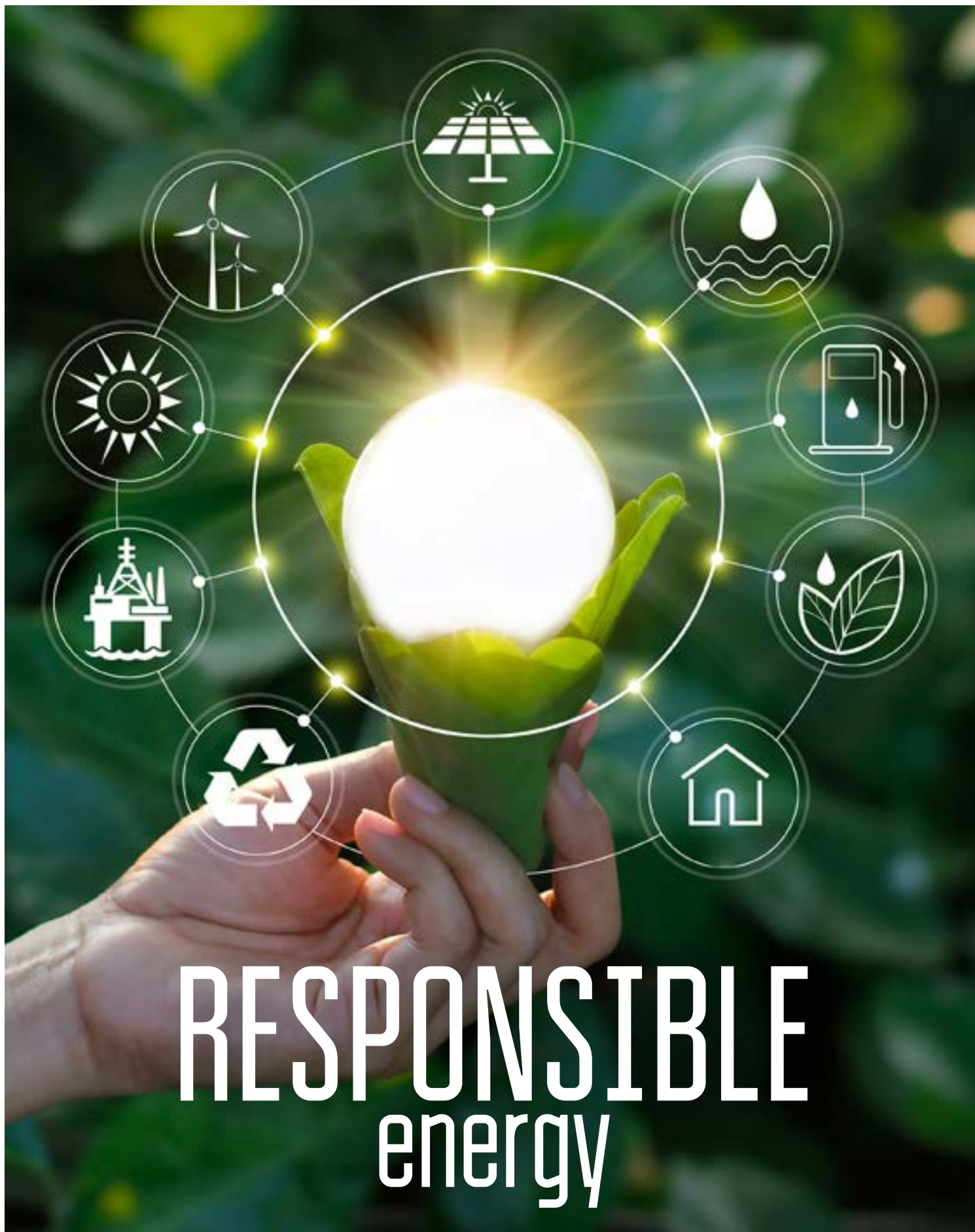




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MESSAGE FROM THE PRESIDENT

OF PJSC LUKOIL



Dear readers!

Our Company continues to evolve in accordance with the UN Sustainable Development Goals, which we do not see as being distant prospects, but they rather form the basis of our daily work.

The 2019 reporting year was successful for the Company in terms of operational and financial results. And no less significant was that we also took specific steps to overhaul our system for managing climate change issues. The Board of Directors of PJSC LUKOIL made important decisions to facilitate mitigation of climate change, including setting quantitative targets to reduce greenhouse gas emissions and conducting inventories of sources of direct and indirect emissions. Assessment of the impact of climate change on production facilities and infrastructure in the Arctic and permafrost zones is planned.

The sustainable development management system changed significantly in the reporting year, with the leading role for enhancement of LUKOIL Group activities in this area given to the Strategy, Investment and Sustainability Committee of the Board of Directors of PJSC LUKOIL. All issues on sustainability reviewed at the Board of Directors undergo preliminary preparation and discussion in that Committee.

Last year's results demonstrated a 3.3% decrease in direct GHG emissions and almost a twofold decrease in methane emissions in Russia compared to the baseline of 2016, when the first target for reducing greenhouse gas emissions for Russian entities was set. Importantly, we managed to achieve this goal while at the same time increasing hydrocarbon production and refining volumes. The Company also implemented measures to reduce the impact of climate change in its foreign entities. For example, in 2019 the largest LUKOIL gas projects in Uzbekistan saw a drop in greenhouse gas emissions of 10.9% compared to 2018.

These results were achieved due to investments in the modernization and construction of production facilities and infrastructure, as well as the implementation of targeted corporate programs. Consequently, the efficient use of associated petroleum gas (APG) reached 97.6% across all LUKOIL Group production entities, which is close to the technological maximum. As a result of modernization projects and energy efficiency measures, the Energy Intensity Index of our refineries is steadily improving. Oil and gas production entities are implementing a program for transitioning to energy efficient pumping equipment. Hence, energy consumption for production needs is being reduced annually.

We participate in global industry-specific initiatives aimed at mitigating the impact of oil and gas companies on the climate. Since 2018 LUKOIL has participated in the "Zero Routine Flaring by 2030" World Bank initiative, and currently we are implementing two infrastructure building projects at our fields for APG collection and utilization.

We continue to enhance production safety standards in all the countries where LUKOIL operates. This covers the occupational safety of our employees and contractors, improving the reliability of technological systems and equipment, and environmental protection. In 2019 we continued preparation for transitioning to the new international standard ISO 45001:2018, which expanded the requirements for elaborating safety management systems. We are also stepping up work with contractors in this area.

All LUKOIL Group entities continually analyze occupational safety indicators, and make maximum efforts to strengthen measures aimed at preventing injuries. Also, state-of-the-art technologies are being introduced to boost the level of industrial safety.

The decrease in basic injury rates among LUKOIL employees and among our contractors in the last five years demonstrates the effectiveness of our efforts.

Another achievement of the Company has been a continuous reduction in oil and petroleum product spills in Russia in the past three years – and in 2019 this figure fell by half compared to the previous year.

Furthermore, as a result of the implementation of the Environmental Safety Program we reduced pollutant emissions, ensured the disposal of all waste generated, and reduced the amount of waste accumulated in entities prior to their joining LUKOIL Group. The Company is expanding its participation in biodiversity conservation projects: together with the Ministry of Natural Resources of the Russian Federation and the WWF-Russia Environmental Fund, we have launched a joint saiga antelope conservation project in Southern Russia.

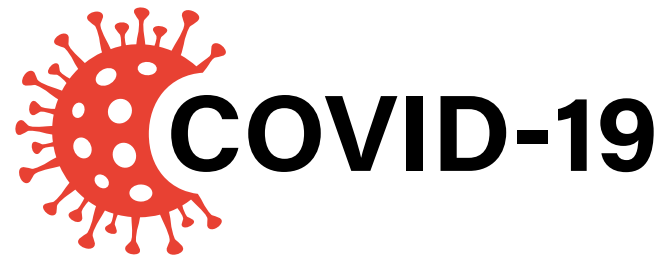
We are increasing the scope of education programs for our employees through the use of modern distance-learning tools, which have become especially important during the coronavirus pandemic. In 2019 LUKOIL employees spent about two million hours using distance training in corporate programs.

We continue long-term programs to support the territories where we operate and the indigenous minorities of the North. The most successful programs, such as the Social and Cultural Projects Competition, include not only Russia but also the foreign countries where LUKOIL has a presence.

Our 10th Sustainability Report is being released at a time when the global community is taking its first steps to recover from the COVID-19 virus pandemic. At LUKOIL, we took prompt measures to protect the health of employees, while our plants and filling stations continued working to support the economy of regions and countries where we operate. The pandemic has proved how important it is to address a wide range of global problems, including issues relating to sustainable development, and thereby to increase society's "immunity" to all challenges that may arise.

Vagit Alekperov
President, Chairman of the Management
Committee of PJSC LUKOIL

LUKOIL'S ACTIONS DRIVEN BY THE COVID-19 PANDEMIC



During the preparation of this Report in March 2020, the COVID-19 pandemic was already beginning to spread globally affecting many countries, including Russia.

Shortly after the first notifications regarding the growing threat of large-scale infection, LUKOIL took measures to protect the health of its employees by preventing further contagion. For immediate response and coordination, PJSC LUKOIL and all Group entities created command centers which were put in charge of daily monitoring and situation awareness.

From the very start of the pandemic, enhanced sanitary protection measures were implemented across offices and enterprises. These included frequent cleaning and anti-bacterial ultraviolet light treatment of premises, as well as disinfection of work spaces. Employees were provided with masks; antiseptic dispensers were installed in premises; and ongoing monitoring of body temperature and the state of employees' health were introduced.

We canceled all business trips to foreign countries and minimized movements of our employees across Russia's regions. Production companies in Russia, Uzbekistan and Iraq extended the term of rotation shifts up to three

months (a portion of specialists involved in the West Qurna-2 project had returned home before the active stage of the pandemic began). At distant production facilities, the Company arranged for the transportation of employees to local healthcare centers when required.

Because of the ongoing nature of their operations, all of the Company's plants continued functioning. For those who remained at their workplaces, conditions to secure physical distancing to the maximum extent possible were created; the number of production personnel working in shifts was reduced; and schedules of office-wide on-call duty were introduced. To protect fuel station operators, protective shields were installed at all sites.

Over 20 thousand employees began working from home. For many of them, it was a good opportunity to apply the wide variety of corporate digital tools and services in practice. To facilitate the transition and adaptation to the new conditions, the AR LUKOIL mobile application was developed and integrated on a tight deadline to raise the awareness of the tools available and to train employees both in Russia and abroad. In April alone, 14 webinars devoted to methods of arranging work from home, time

management, psychological resilience during the lockdown period and other topics were held, and employees experiencing unusual stress were given the opportunity to obtain the advice of psychologists remotely.

To unite and consolidate all employees, a special "MYVMESTE" ("We are in this together") channel was created, and virtual hobby clubs were launched. Several corporate activities have now moved to the virtual space (such as the competition for young professionals). For families with children, we tried to assist with one of the most difficult issues during the lockdown period - how to keep children occupied. Jointly with the Higher School of Economics, we elaborated an online project "HSE for Kids" children's camp which includes educational, entertainment and sports activities.

We also assisted countries and Russia's regions where our entities operate. This support program was deployed in 22 constituent entities of the Russian Federation and in 12 foreign countries.

Protective equipment and disinfection means were purchased for healthcare facilities, and fuel was provided for medical transport at no cost in the Astrakhan, Volgograd, Kirov,

Saratov, Sverdlovsk, Tyumen, Chelyabinsk, Orenburg and Samara regions, as well as in the republics of Tatarstan, Bashkortostan, Karelia, Udmurtia and in the Khanty-Mansi Autonomous Area - Yugra. In the Khanty-Mansi Autonomous Area - Yugra, we also remitted cash funds to the Regional Development Fund to combat the spread of infection. The Kogalym plant producing chemical reagents partially repurposed its output to manufacture disinfectants which were distributed across the region.

In the Komi Republic, LUKOIL-Komi helped streamline and increase the production of personal protective equipment for healthcare professionals (100 thousand masks and 1.5 thousand protective suits). Help was also supplied to the Department of Infectious Diseases of the Usinsk Central Hospital in the form of oxygen and compressed air and a Wi-Fi network development. During the most acute period of the pandemic, LUKOIL's gas stations provided free fuel to ambulances from 18 healthcare facilities. The veterans of the Great Patriotic War and disabled people were given special care and financial support. President of PJSC LUKOIL transferred his personal funds to the Republic to help local bodies and individuals address the most pressing challenges.

In the Perm Territory, LUKOIL-PERM arranged for 3 meals per day free-of-charge to be delivered to the workplaces of the medical staff of the Perm Territorial Clinical Infectious Hospital. Over 400 sets of protective equipment and portable radio sets to facilitate communication between specialists of the infectious department and those of other departments were handed over to medical professionals. Fuel was provided at no cost to volunteer organizations and needy multi-member families.

In foreign countries (Azerbaijan, Bulgaria, Iraq, Moldova, Mexico, Romania, Serbia, Turkey, Croatia and Uzbekistan), the Company transferred much needed equipment, protective suits and disinfectants to local healthcare facilities and provided fuel free-of-charge to medical teams. At the Company's gas stations, medical professionals were served coffee free of charge. Support was also rendered to medical scientific institutes to assist in research aimed at discovering ways to combat the novel virus. In Italy, we arranged to send supplies of specialized equipment to intensive care units at local hospitals. In the United Arab Emirates (UAE) LUKOIL paid for the accommodations of Russians who were unable to return home because air travel was suspended.

The above measures do not represent by any means an exhaustive list of measures actually taken by LUKOIL entities, our charity fund and President of PJSC LUKOIL V.Yu. Alekperov. We will continue providing help as required to countries and regions where we operate, thus further consolidating the ties between LUKOIL and the local communities and combining our efforts. More detailed information will be presented in future Reports.

We are confident that the experience of overcoming the pandemic will help strengthen the Company's response to such events in the future. Safeguarding people's health and making it possible to restore a safe work environment at our production sites are LUKOIL's top priorities.

BUSINESS MODEL



EXPLORATION AND PRODUCTION

Exploration

LUKOIL is a leader by proved liquid hydrocarbon reserves and by proved reserves to production ratio. The majority of LUKOIL reserves are of conventional type.



14

COUNTRIES
OF THE WORLD



76%
share of oil

in proved
reserves



24%
share of oil



Offshore projects
(0.3 to 3,000 m)
and onshore
projects

Development and production

We develop reserves located, inter alia, in major oil and gas provinces in Russia, Uzbekistan and Iraq, producing liquid hydrocarbons (oil and gas condensate), natural and associated petroleum gas.



Around
17%
share of international
projects production
in total hydrocarbon
production

- Climate zones:
from subarctic to equatorial
- Leadership in development of hard-to-recover reserves in Russia



MARKETING AND DISTRIBUTION



>100

COUNTRIES OF THE WORLD

LUKOIL is a major crude oil and marketable gas trader and a supplier of premium quality fuels and lubricants.



International trading:

wholesale marketing of our crude oil and petroleum products, trading third-party hydrocarbons



lubricants production and marketing:

35 production facilities, over 800 types of lubricants



Marine and river bunkering



Aircraft refueling



Retail sales:
fuel stations
network

19

countries
of the world

LUKOIL is a global vertically integrated company accounting for **around 2%** of global oil production and **around 1%** of proved hydrocarbon reserves.



REFINING



6

COUNTRIES
OF THE WORLD

89%

Oil refinery yield

Our refineries product mix is used as fuel for various means of transport, as well as feedstock for other industries.



Oil refining



4 oil refineries in Russia and 4 - in Europe¹.

- **Products:** motor fuel, lubricants and bitumen, bunker and jet fuel

Gas processing



4 gas processing plants and 2 processing facilities at other plants in Russia.

- liquid hydrocarbon and marketable gas

Petrochemicals



2 petrochemical plants in Russia and 2 production facilities at European oil refineries.

- pyrolysis and organic synthesis products, fuel fractions and polymeric materials

¹ LUKOIL owns a 45% share in the Dutch refinery



POWER GENERATION

The power generation sector is represented by a complete chain from generation to transmission and sale of thermal and electric energy to external consumers.

Electric power generation

71%
commercial
generation

6% RES share in total commercial power generation

Thermal power plants and boiler houses in the south of Russia, 4 hydroelectric power plants, solar and wind power generation stations

29%
supporting
power generation

GEOGRAPHY OF PRESENCE

WE OPERATE



in over
30
countries
of the world

on **4**
continents



84%
OF STAFF
is employed
in Russia¹

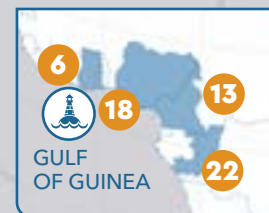
11%
OF STAFF
is employed
in Europe

In Russia, we work
in over 60 Russian
entities. Extensive
experience of working
in a multinational
environment is our
competitive advantage.

OFFSHORE PROJECTS



- 'ZERO DISCHARGE' PRINCIPLE
- SATELLITE MONITORING OF MARINE AND COASTAL ECOSYSTEMS



REGULATION ON CLIMATE



- GHG EMISSIONS REDUCTION PROJECTS
- CDP PROJECT REPORTING



RENEWABLE ENERGY



- HPP MODERNIZATION
- PROMOTION OF HIGHER ENGINEERING EDUCATION IN THE AREA OF RENEWABLE ENERGY SOURCES

THE ARCTIC



- APPLYING THE BEST AVAILABLE TECHNOLOGIES, PIT-FREE DRILLING
- CONSTRUCTION OF PILE-SUPPORTED PIPELINES OVER PERMAFROST TERRAIN
- PERFORMANCE STANDARDS ACCORDING TO KONKRAFT REPORT RECOMMENDATIONS

THE KRASNOYARSK
TERRITORY

THE KOMI REPUBLIC,
THE NENETS AUTONOMOUS AREA,
THE YAMAL-NENETS AUTONOMOUS AREA,
THE KHANTY-MANSI AUTONOMOUS AREA - YUGRA

INDIGENOUS PEOPLES



- THE KHANTY, MANSI, NENETS, SELKUP, DOLGAN, NGANASAN PEOPLE
- ECONOMIC AGREEMENTS WITH INDIGENOUS PEOPLE
- HISTORICAL AND CULTURAL AREA SURVEYS

ARID REGIONS



- USE OF WATER-EFFICIENT TECHNOLOGIES
- SUPPLIES OF CLEAN POTABLE WATER TO SCHOOLS, ORPHANAGES, HEALTH CARE CENTERS
- MODERNIZATION OF WATER SUPPLY INFRASTRUCTURE

RUSSIA



- 1 Austria
- 2 Azerbaijan
- 3 Belarus
- 4 Belgium
- 5 Bulgaria
- 6 Ghana
- 7 Georgia
- 8 Egypt
- 9 Iraq
- 10 Spain
- 11 Italy
- 12 Kazakhstan
- 13 Cameroon
- 14 Luxembourg
- 15 Macedonia
- 16 Mexico
- 17 Moldova
- 18 Nigeria
- 19 Netherlands
- 20 Norway
- 21 UAE
- 22 The Republic of the Congo
- 23 Romania
- 24 Serbia
- 25 The USA
- 26 Turkey
- 27 Uzbekistan
- 28 Finland
- 29 Croatia
- 30 Montenegro

SUSTAINABILITY STRATEGY

OF LUKOIL GROUP

Our approach to managing sustainability is based on alignment of the Company's interests and plans with the United Nations sustainable development principles, universal values, global trends, as well as national and regional development priorities.

Our absolute priorities at all levels of the value chain are issues of industrial, environmental, social, as well as the personal safety of employees of LUKOIL Group entities and improvement of the safety culture in the supply chain.

LUKOIL GROUP'S STRATEGIC GOALS

In 2017, the Board of Directors of PJSC LUKOIL determined four strategic goals of LUKOIL Group in the area of sustainable development that can be aligned with **11 UN Sustainable Development Goals** and **15 targets**.

We implement many programs and annually disclose their results in public reports. The 2019 results demonstrate that the Company is evolving thanks to continuous improvement of its sustainability performance.

STRATEGIC SUSTAINABLE DEVELOPMENT GOALS OF LUKOIL GROUP	SDGs	KPIs	UNCTAD INDICATORS	INDICATORS UNDER OTHER REPORTING SYSTEMS	PLANS	REPORTING GUIDELINES
1 INDUSTRIAL AND ENVIRONMENTAL SAFETY, RELIABILITY AND EFFICIENCY OF PROCESSES	     	The efficient use of APG reached¹ 97.6% throughout LUKOIL Group The lost time accident frequency rate (LTAFR) amounted to 0.19	The lost time injury frequency rate (LTIFR) stood at 0.13	Russian entities cut their air pollutant emissions by 7.2%	• Further increase in the APG use • Further implementation of industrial and environmental safety programs • Further introduction of safety culture tools • Development of cooperation with contractors in the area of occupational health and safety	GRI IPECA UNCTAD SASB RSPP
2 COMPETITIVENESS	  	Refinery yield² - 89.4% As compared to 2014³, the EII index (Solomon) decreased to 96.5% The energy intensity of refining one tonne of basic raw material at petrochemical plants amounted to 270 kWh/t	• As compared to 2016 (the base year), methane emissions decreased by 46%, and GHG emissions dropped 3.3% across Russian Entities • The share of electric power generated from renewable sources in 2017-2019 averaged 6%	• The refining depth (the Nelson Index) for LUKOIL Group refineries rose up to 9.1 • The Information Strategy of LUKOIL Group is being implemented • Project teams have been formed	• Development of further long-term goals to reduce GHG emissions; preparing the inventory of GHG emissions • Further implementation of the energy conservation program • Further improvement in the efficiency of processing raw materials and modernization of the product mix • Further introduction of leadership tools into HR management	GRI IPECA UNCTAD SASB
3 SOCIAL RESPONSIBILITY, A WORTHY CONTRIBUTION TO SOCIAL DEVELOPMENT	   	Specific revenue (labor productivity) amounted to RUB 77 million/person	• The share of LUKOIL Group employees covered by collective agreements equaled 88.9% • Share of young employees in the total LUKOIL Group employee headcount was 37% • The amount of training reached over 258 thousand person-courses • External social support contributions in LUKOIL Group were RUB 9 billion	• Employees of LUKOIL Group received over 300 thousand health-related services⁴ • The share of local managers in foreign entities of LUKOIL Group was 33%⁵ • 785 projects in Russian regions received support	• Implementation of programs to improve operational efficiency, digitalization and investment programs • Formation of key management personnel • Further implementation of social and economic development programs in regions	GRI IPECA UNCTAD SASB
4 RETURN ON EQUITY, RETURN ON INVESTMENT, AND CONTINUOUS CREATION OF SHAREHOLDER VALUE		The free cash flow was RUB 702 billion, up 26% on 2018.	The revenue of LUKOIL Group stood at RUB 7,841 billion	• The dividends paid on shares amounted to RUB 180.7 billion, a rise of 14.1% on 2018	• Implementation of programs to improve operational efficiency, digitalization and investment programs • Improvement of corporate governance	

¹ Indicators dynamics is assessed in relation to 2018, unless otherwise indicated. Comparison with indicators for a longer period is caused by specific indicators.

² The indicator relates to the processing of raw materials by LUKOIL Group entities at its own refineries (excluding mini-refineries).

³ Starting from 2014, the list of organizations covered by the study has changed while the scope of the study has remained unchanged.

⁴ A service provided to an employee under social programs is the provision of the relevant service at the employee's request or the provision of an amount of money to pay for the service or compensate for its cost.

⁵ The indicator is calculated using the number of senior managers.

MATERIAL TOPICS

AND ISSUES OF THE REPORT

Based on the results of a comprehensive analysis, six topics were identified as material for public reporting purposes:

- 1 sustainable development management, ethics and human rights;
- 2 climate change;
- 3 safety;
- 4 environmental protection;
- 5 responsible social policy (human resources management);
- 6 society (local communities and indigenous minorities of the north).

Information on the procedure for determining material topics is given in Appendix 2.

» For more details, see p. 158

SUSTAINABLE DEVELOPMENT
MANAGEMENT, ETHICS AND
HUMAN RIGHTS

CLIMATE CHANGE

SAFETY

ENVIRONMENTAL
PROTECTION

RESPONSIBLE
SOCIAL POLICY

SOCIETY

KEY INQUIRIES RECEIVED FROM STAKEHOLDERS IN 2019

Indigenous minorities of the North
The quality of products and services
Programs for regions, Social and Cultural Projects Competition
Leadership philosophy
Training
Remuneration and bonuses
Working environment, collective agreements
Emissions and Waste
Biodiversity and Ecosystems
Water
Environmental Safety
Digitalization, cybersecurity
Workplace safety
Industrial Safety and Oil Spills
GHG emissions, reduction of emissions
Climate Strategy and Reporting
Stakeholder Engagement
Human Rights
Ethics, corruption
Corporate governance

CLIENTS,
SUPPLIERS
AND CONTRACTORS

EMPLOYEES
AND TRADE UNIONS

SHAREHOLDERS
AND INVESTORS

STATE LEGISLATIVE
AND EXECUTIVE
AUTHORITIES

SOCIETY



KEY GROUPS OF STAKEHOLDERS

1 3 5 6

Clients
Suppliers and Contractors

1 2 3 5 6

Employees and trade unions

1 2 3 4 5 6

Shareholders and investors

2 4

State legislative
and executive authorities

1 2 3 4 6

Society: local authorities, media, state, municipal, public organizations, environmental organizations and the public, residents of the regions where LUKOIL operates, expert and scientific communities, international initiatives and industry associations, indigenous minorities of the North



INITIATIVES

International projects, programs and initiatives LUKOIL Group / PJSC LUKOIL participates in



European Business Network
for Corporate Social
Responsibility



«Zero Routine Flaring
by 2030» Initiative
of the World Bank and UN



United Nations
Global Compact



Collaboration agreement for 2018-2022 between the International Labor Organization and Public Joint-Stock Company «Oil Company «LUKOIL».

The initiative «Business and Biodiversity» within the framework of the federal project of Russia «Conservation of Biological Diversity and Development of Ecotourism».

OUR CONTRIBUTION

TO THE UN SUSTAINABLE DEVELOPMENT GOALS IN 2019

TOTAL INVESTMENTS IN ACHIEVING THE UN SUSTAINABLE DEVELOPMENT GOALS IN 2019

218.1

RUB BILLION



Taking into account the strategic guidelines of LUKOIL Group, the Company's experience in implementing environmental and industrial safety programs, social programs for employees of our entities and for the regions in which our enterprises operate, as well as the expectations of interested parties, we have identified 11 priority UN Sustainable Development Goals and 15 Targets.



These goals and targets are harmoniously combined with operational programs implemented by LUKOIL Group entities, and are part of corporate planning and budgeting. Therefore, we believe that their implementation, alongside other steps taken by the Company, largely determines the contribution LUKOIL Group makes to achieve the UN global Sustainable Development Goals.

4 QUALITY
EDUCATION

TARGET 4.4

EXPENSES
1,172
RUB million

OUR PROGRAMMS

- A comprehensive program of interaction between LUKOIL Group entities and institutions of higher education in the oil and gas, chemical and energy areas
- Support programs for students and teachers of higher and secondary education organizations in Russia
- Charity support for schools and educational institutions / centers
- Personnel education programs

5 GENDER
EQUALITY

TARGET 5.5

- We share the ILO standards for decent and productive work for women and men in terms of equal opportunities, providing social guarantees and respect for human dignity.

6 CLEAN WATER
AND SANITATIONTARGETS
6.3, 6.4EXPENSES
2,611
RUB million

OUR PROGRAMMS

- LUKOIL Group entities Environmental Safety Program, Clean Water subprogram
- Charity projects and programs
- Social and Cultural Projects Competition («Ecology» nomination)
- Volunteer actions to clean up river banks from garbage.
- Projects related to provision of drinking water in foreign countries

7 AFFORDABLE AND
CLEAN ENERGYTARGETS
7.2, 7.3EXPENSES
4,973
RUB million

OUR PROGRAMMS

- RES Development Projects
- Energy Conservation Programs of LUKOIL Group entities

8 DECENT WORK AND
ECONOMIC GROWTHTARGETS
8.3, 8.8EXPENSES
151,586
RUB million

OUR PROGRAMMS

- Personnel costs (remuneration and social programs)
- The costs for improvement of workplace environment and labor protection, reducing injuries and occupational illnesses

9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE

TARGET 9.4

EXPENSES
6,723
RUB million

OUR PROGRAMMS

- Program of scientific and technical works
- Digital Development Programs as part of the Information Strategy of LUKOIL Group

12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION

TARGET 12.5

EXPENSES
3,352
RUB million

- Environmental Safety Program of LUKOIL Group entities, Waste subprogram

13 CLIMATE
ACTION

TARGET 13.1

EXPENSES
24,912
RUB million

OUR PROGRAMMS

- The Environmental Safety Program of LUKOIL Group, Clean Air subprogram
- Program for the rational use of APG of LUKOIL Group entities

14 LIFE
BELOW WATERTARGETS
14.1, 14.5EXPENSES
13,493
RUB million

OUR PROGRAMMS

- Environmental Safety Program of LUKOIL Group entities, Biodiversity conservation subprogram
- Industrial environmental control
- Emergency Prevention and Response
- Biodiversity Conservation Program for the Company's facilities operating in the Arctic zone of the Russian Federation

15 LIFE
ON LAND

TARGET 15A

EXPENSES
1,088
RUB million

- Environmental Safety Program, Biodiversity and Remediation subprogrammes

17 PARTNERSHIPS
FOR THE GOALS

TARGET 17.17

EXPENSES
8,236
RUB million

OUR PROGRAMMS

- Participation in the World Bank and UN project
- Membership in the UN Global Compact Initiative

"LUKOIL contribution to the attainment of the UN Sustainable Development Goals" brochure

SUSTAINABLE
DEVELOPMENT
GOALS



ABOUT THE REPORT

PJSC "LUKOIL" (hereinafter PJSC LUKOIL) is pleased to present **the tenth** Sustainability Report of the LUKOIL Group (hereinafter the LUKOIL Group is referred to as LUKOIL Group) (the "Report") summarizing performance for the period from 1 January 2019 to 31 December 2019. The previous report was published in July 2019 (for the reporting period from 1 January 2018 to 31 December 2018).

Since 2014, LUKOIL Group has been consistently ranked among the top ten companies in the Responsibility and Transparency and the Sustainable Development Vector Indices compiled by the Russian Union of Industrialists and Entrepreneurs (RSPP) based on the analysis of public reporting of Russia's 100 largest companies and stock market indices (the MOEX - RSPP Responsibility and Transparency Index and MOEX - RSPP Sustainable Development Vector Index).

We have been publishing sustainability reports since 2005. They are addressed to a wide range of stakeholders and seek to provide balanced information relevant to the interests of each stakeholder group. The Company pays significant attention to corporate governance of sustainability issues and continuously strives to improve the quality of reported information. We believe that independent audits of disclosed information and external assurance of the Report contribute to these objectives. The audit firm's opinion is published on page **175**. The conclusion of the RSPP Council on Non-Financial Reporting concerning the external assurance of the Report is published on page **179**.

In preparing this Report, we used the following non-financial reporting standards and guidelines:

- Business Reporting on the Sustainable Development Goals (SDGs)
- Global Reporting Initiative (GRI) Sustainability Reporting Standards ("Core" option). The table of standard general and specific GRI disclosures and individual GRI indicators are provided in **Appendices 3 and 4** respectively
- The United Nations Global Compact
- The Basic Performance Indicators and the Responsibility and Transparency and the Sustainable Development Vector Indices of the Russian Union of Industrialists and Entrepreneurs (RSPP)

We also used the following reporting platforms:

- Guidance on Core Indicators for Entity Reporting on Contribution Towards Implementation of the Sustainable Development Goals, UNCTAD, 2019
- IPECA (International Petroleum Industry Environmental Conservation Association) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting, 2019
- SASB (Sustainability Accounting Standards Board) reporting standards - material topics and individual indicators

Throughout this document, the words "LUKOIL Group," "LUKOIL," "the Company," "the Group," the pronoun "we" and its various related forms refer to PJSC LUKOIL and LUKOIL Group entities, unless specified otherwise.

The list of abbreviations, formulas for calculating a number of indicators, and definitions of terms are given in Appendix 7.

» See page **172**

Previous reports are available on PJSC LUKOIL's website at:



STRATEGIC ENVIRONMENT



In 2019, several reports were published on the progress towards achieving the UN Sustainable Development Goals (SDGs)¹ that analyzed the positive developments and challenges during the year after publication of the previous report². The documents highlight a number of positive trends that attest to the effectiveness of actions taken by states and companies.



Progress has been made in providing clean drinking water to more people



Access to energy is becoming easier



Labor productivity is growing, while unemployment is decreasing



New technology is being introduced to stimulate international trade



Investment in combating climate change has increased, the uptake of renewables has accelerated, and new carbon sequestration and capture technology has been developed

At the same time, the reports highlight areas in 2019 where no significant improvements have been made and that require special attention in order to take more dynamic action. Four out of 17 SDGs are considered to be the most important areas of focus: combating climate change (SDG 13 "Climate Action"), reducing inequalities (SDG 10 "Reduced Inequalities"), protecting biodiversity (SDG 15 "Life on Land"), and solving the problem of waste (SDG 12 "Responsible Consumption and Production").

According to the 2019 reports, climate change has a cumulative effect that poses risks for countries, companies, and people.

Inequality continues to exist in many ways, including uneven distribution of value added among different factors of production, which leads to a lower share of the national product attributable to labor.

So, too, the rate of biodiversity loss has increased significantly, including land degradation, forest loss, and loss of unique ecosystems.

Global consumption of resources is growing faster than population and global production, which means that the efficiency of their use is consistently low. This is also evidenced by a significant increase in waste generation. Much of this waste appears as a result of irreversible removal of natural wealth from the environment.

A group of independent scientists³ warns that the overlapping of negative trends would lead to irreversible changes in the Earth's conditions. Experts expect that investment analysis methodologies used by investors and professional investment managers will include not only ESG indicators that are already widely used, but also data on companies' contribution to implementation of the SDGs.

¹ Sources: The Future is Now. Science for Achieving Sustainable Development. Global Sustainable Development Report 2019. UN Department of Economic and Social Affairs, 2019.

² The Sustainable Development Goals Report, 2018.

³ Source: The Future is Now. Science for Achieving Sustainable Development. Global Sustainable Development Report 2019. UN Department of Economic and Social Affairs, 2019.

ABOUT THE COMPANY:

HIGHLIGHTS OF THE YEAR

Public Joint-Stock Company "Oil company "LUKOIL" (hereinafter PJSC LUKOIL) is one of the world's largest publicly traded, vertically integrated oil and gas companies in terms of total proved reserves and hydrocarbon production. PJSC LUKOIL is the Corporate center of LUKOIL Group. LUKOIL Group entities employ over 100 thousand people across Russia, Europe, Asia, Africa, and the Americas (more than 30 countries worldwide). We strive for technological leadership and ecological balance so that all of us can share in a prosperous future.

LUKOIL Group's operations and financial activities are coordinated from its head office located in Moscow in the Russian Federation. We divide our operations into three business segments:



**EXPLORATION
AND PRODUCTION**



**REFINING,
MARKETING
AND
DISTRIBUTION**



**CORPORATE
AND OTHER**

EXPLORATION AND PRODUCTION

The Company has a high-quality portfolio of assets diversified both geographically and by type of reserves. Our proved reserves of oil and gas are mostly conventional. In 2019, they amounted to 15.8 billion BOE¹, 24% of which were gas. The Company's proven reserve life is 18 years. In 2019, the Company's annual oil

production increased by 0.4% year-on-year due to production growth at its fields in the Caspian Sea and larger production of high viscosity crude oil in Timan-Pechora.

In 2019, LUKOIL expanded its participation in foreign projects: the Company acquired

a stake in the deep-water Marine XII project in the Republic of the Congo; the Company also joined the Gasha concession in the Persian Gulf and the Zhenis block project in the Republic of Kazakhstan.

REFINING, MARKETING AND DISTRIBUTION

This business segment includes organizations² whose operations relate to refining of hydrocarbons; transportation; wholesale and retail trade and trading; and generation of electricity and heat.

In 2019, refinery throughput at LUKOIL's own refineries in Russia increased by 2.2% and by 1.9% in European entities

as compared to 2018. The Company continued increasing the refinery yield and interfactory integration. The share of fuel oil in the product mix continues to decrease, with the growth of light products share. At the Volgograd Refinery, the production of low-sulfur marine fuel oil has begun, which complies with the requirements of MARPOL.

LUKOIL is developing production of new products, including next-generation bitumen. As part of this project, a modern bitumen materials research center was opened in the Nizhny Novgorod Region.

In the reporting year, a new lubricants plant was commissioned in Kazakhstan. Its capacity is 100 thousand tonnes

of finished products. The launch of this plant will help optimize logistics in Central Asia. Biodegradable hydraulic and metalworking fluids are being developed, including special hydraulic oils that can be used in Arctic conditions.

The Power Generation business sector is represented by a complete vertically integrated chain, from generation to transmission and distribution of heat and power to external consumers (commercial power generation) and for operational needs (supporting power generation). The aggregate installed capacity of our power generating facilities¹ was 6.4 GW², including the combined capacity of renewable power generating facilities of 0.4 GW.

In 2019, the Company completed a significant project for this business sector – renovation of Belorechensk Hydro Power Plant (HPP). Thanks

to this project, the capacity of the plant reached 48 MW. The Company decided to construct the second solar power plant (SPP) with a capacity of 20 MW at the Volgograd Refinery (LLC LUKOIL-Volgogradneftepererabotka). Pilot projects to construct digital substations were continued.

The Corporate and Other business segment includes PJSC LUKOIL and other entities. One of the main functions of the corporate center is to coordinate and manage organizational, investment, and financial processes at the Company's subsidiaries.

Full list of LUKOIL Group entities in accordance with IFRS is given in Appendix 1.

➤ See page **156**

You can find more information about LUKOIL Group's operational and financial performance in the Company's financial reports:



The Annual Report of PJSC LUKOIL for 2019:



The Analyst Databook for 2019 :



Key financial and operational indicators

	2017	2018	2019
Financial			
Revenue, RUB billion	5,937	8,036	7,841
EBITDA, RUB billion	832	1,115	1,236
Total debt to EBITDA, %	74	48	45
Capital expenditures, RUB billion	511	452	450
Free cash flow, RUB billion	247	555	702
Research and development costs, RUB billion	6	6	6
Number of patents received, patents	20	37	30
Labor productivity, RUB million / person	57	78	77
Operational			
Production of oil and gas condensate (including the share in associates), million barrels of oil equivalent	645	644	646
Crude oil production (including the share in associates), thousand tonnes	87,414	87,124	87,488
Gas production, million cubic meters	28,861	33,543	35,046
• including APG	8,942	8,772	9,548
Output of petroleum products, thousand tonnes ³	69,908	70,188	69,296
Lubricants production (full cycle), thousand tonnes	998	961	963
Output of marketable petrochemicals, thousand tonnes	1,171	1,246	1,137

¹ According to the classification of the Securities and Exchange Commission (SEC); BOE – barrels of oil equivalent.

² This business segment includes several business sectors, such as: "Oil refining in Russia," "Oil refining abroad," "Petrochemicals," "Oil product supply in Russia," "Oil product supply abroad," "Transportation," and "Other entities from the Refining, Marketing and Distribution business segment."

¹ The total electric capacity of the Group's entities takes into account facilities owned by the Company but leased out to other legal entities.

² The data do not include the West Qurna-2 project.

³ At own, affiliated, and third-party refineries (according to the Group's share).

CORPORATE GOVERNANCE



Evgeny Khavkin

Vice President –
Chief of Staff
of PJSC LUKOIL

Q WHAT DO YOU THINK ABOUT THE CHANGES TO THE SUSTAINABILITY MANAGEMENT SYSTEM IN 2019?

A Significant efforts were made last year to develop the corporate sustainability management system, and we are already getting positive feedback on those changes from our stakeholders. The Board of Directors, together with the Strategy, Investment, and Sustainability Committee, initiated defining system-wide activities and tasks, both for the near and long term. At meetings the governing bodies reviewed the most pressing issues concerning environmental and industrial safety, and risk management, with a special focus placed on climate change. We intend to proceed with these efforts and believe that the Company's key task is to achieve meaningful results, both for shareholders and society in general.

Q WHAT CHANGES DID THE SUSTAINABILITY TASK FORCE SEE?

A The Sustainability Task Force has the heads of the Company's dedicated divisions as its members. The goal of the Task Force is to coordinate the efforts of its members and to develop a united position on sustainable development issues. In 2019, independent members of the Board of Directors and external experts and advisers took part in the Sustainability Task Force's meetings, which had a significant positive impact on the level and quality of discussions and expanded the range of matters discussed. The expansion of the Task Force's functions testifies to the high importance of sustainability matters to the Company.

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AND CLIMATE CHANGE
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SUPPLY CHAIN

THE REPORTING YEAR'S CHANGES AND RESULTS INCLUDE



AN INCREASE IN THE NUMBER OF BOARD MEETINGS WHERE SUSTAINABILITY MATTERS WERE DISCUSSED



THE BOARD OF DIRECTORS MADE A DECISION TO SET LONG-TERM CLIMATE GOALS



THE BOARD OF DIRECTORS ENHANCED ITS ENGAGEMENT WITH INVESTORS ON SUSTAINABILITY AND CLIMATE ISSUES



THE FUNCTIONS OF THE STRATEGY, INVESTMENT AND SUSTAINABILITY COMMITTEE WERE EXPANDED



A SUSTAINABILITY MANAGEMENT FUNCTION WAS INTRODUCED AT THE MANAGEMENT COMMITTEE LEVEL



THE NUMBER OF SUSTAINABILITY TASK FORCE MEETINGS INCREASED AND THE RANGE OF ISSUES DISCUSSED EXPANDED

SUSTAINABILITY AND CLIMATE CHANGE MANAGEMENT

The management system was modified in 2019, bringing real improvements in management systems and processes as well as disclosure approaches.

Sustainability management system structure at PJSC LUKOIL

MANAGEMENT LEVEL

AREAS OF SUSTAINABILITY EFFORTS

The Board of Directors of PJSC LUKOIL

Chairman: **Valery Grayfer**¹

Issues regularly considered at the Board of Directors' meetings include the following:

- Climate change – **NEW**;
- Assessing the results of the Environmental Safety and the Industrial Safety Programs, Better Working Environment, Emergency Prevention and Response Program;
- Review of issues related to the HSE at LUKOIL Group;
- Review of information on major incidents and accidents, their causes, the results of response measures, as well as actions taken to mitigate similar risks in the future

The Strategy, Investment and Sustainability Committee of the Board of Directors of PJSC LUKOIL

Chairman: **Sergei Shatalov**,
an independent member
of the Board of Directors

Igor Ivanov, an independent
member of the Board
of Directors, held this position
until 20 June 2019

The Committee is, among other things, responsible for:

- preparing recommendations for the Board of Directors on the following:
 - strategic goals in sustainable development, including climate agenda, industrial safety, environmental activities and social responsibility,
 - integration of those goals into the Strategic Development Program of LUKOIL Group – **NEW**,
 - enhancement of the corporate governance system,
 - development and evaluation of the Company's engagement with stakeholders on sustainability matters – **NEW**,
 - improvement of the quality of disclosures in LUKOIL Group's Sustainability Report,
 - consideration of sustainability reporting, including LUKOIL Group's Sustainability Report;
- monitoring of the improvement of HSE management system procedures;
- analyzing the causes of incidents and accidents;
- monitoring relations with stakeholders;
- evaluating the effectiveness of the Company's long-term activities

¹ Valery Grayfer was a Chairman of the Board of Directors of PJSC LUKOIL until 24 April 2020 (date of death). During the preparation of the Report Ravil Maganov was appointed Chairman of the Board of Directors by resolution of the Board of Directors of PJSC LUKOIL (Minutes No.11 dated 23 June 2020).

MANAGEMENT
LEVEL

AREAS OF SUSTAINABILITY
EFFORTS

**The Audit Committee
of the Board of Directors
of PJSC LUKOIL**

Chairman: **Viktor Blazheev**,
an independent member
of the Board of Directors

The Committee, among other things, oversees:

- processes used to ensure reliability and efficiency of the risk management and internal control system;
- procedures ensuring compliance with the requirements of applicable laws, corporate ethical standards, rules and procedures, as well as stock exchange requirements;
- whistleblowing procedures for potential bad faith actions on the part of LUKOIL Group employees and third parties, or other violations

**The Human Resources
and Compensation
Committee
of the Board of Directors
of PJSC LUKOIL**

Chairman: **Roger Munnings**,
an independent member
of the Board of Directors

The Committee is, among other things, responsible for:

- preparation of proposals for the Board of Directors on the development of the corporate HR policy;
- annual review of the Board of Directors and its members' performance;
- developing and revising periodically the Compensation Policy for members of the Board of Directors, the Management Committee, and the President of the Company, and also monitoring implementation

**The Management
Committee
of PJSC LUKOIL**

President, Chairman
of the Management Committee:
Vagit Alekperov

The Management Committee is responsible for the management of LUKOIL Group's day-to-day operations.

The matters discussed by the Management Committee at its meetings include but are not limited to:

- the progress and implementation of the Strategic Development Program and development plans and approval of their results;
- securing the highest HSE standards, approval of HSE corporate policy, analyzing efficiency of the HSE management system and improving its performance;
- approval of target HSE programs;
- the functioning of the risk management and internal control system;
- reviewing the report "The State of HSE at LUKOIL Group"

MANAGEMENT
LEVEL

AREAS OF SUSTAINABILITY
EFFORTS

NEW

**Vice President
for Sustainability**

Evgeny Khavkin, a member
of PJSC LUKOIL Management
Committee, Vice President, Chief
of Staff of PJSC LUKOIL

The Vice President for Sustainability is responsible for:

- organization and development of a single corporate position;
- coordination of works related to the creation and implementation of unified corporate information policy on sustainability;
- ensuring interaction and coordination of collaboration among structural units;
- organizing and ensuring engagement with all stakeholders;
- development of internal regulations and a regulatory framework;
- organizing activities of the Sustainability Task Force, development of its work plans, and monitoring the implementation of its decisions;
- preparation of proposals on the improvement of the sustainability management system and practices at PJSC LUKOIL and other LUKOIL Group entities

**The Corporate Secretary
of PJSC LUKOIL**

Natalia Podolskaya

The Corporate Secretary of PJSC LUKOIL and the Office of the Corporate Secretary are responsible for:

- engagement with the Board of Directors and Board committees on sustainable development issues;
- initiating actions to improve the quality of sustainability management to ensure better integration of sustainability issues into business processes;
- participation in coordinating sustainability reporting efforts;
- participation in stakeholder engagement, including preparation of responses to shareholder and investor requests regarding the Group's sustainability performance.

NEW

**The Sustainability Task
Force¹**

Head: **Evgeny Khavkin**, a member
of PJSC LUKOIL Management
Committee, Vice President, Chief
of Staff of PJSC LUKOIL

The Sustainability Task Force (hereinafter the Task Force) sets goals and contributes to developing a single corporate position on relevant sustainability and climate change matters at its meetings. The range of matters discussed was expanded in 2019, which is reflected in the Task Force's new name.

The Sustainability Task Force is responsible for:

- organization of communications and interaction between relevant divisions of PJSC LUKOIL, setting goals to implement changes in management systems;
- organizing and monitoring the process of Sustainability Report preparation;
- enhancing the system of collecting, preparing and disclosing reporting information;
- preparing recommendations for governing bodies on the matters discussed;
- analyzing feedback from stakeholders on sustainable development issues

¹ The name of the Task Force was changed pursuant to PJSC LUKOIL Order No. 173 dated 30 September 2019.

MANAGEMENT LEVEL	AREAS OF SUSTAINABILITY EFFORTS
The Health, Safety and Environmental (HSE) Committee of PJSC LUKOIL Chairman: Ravil Maganov, First Executive Vice President of PJSC LUKOIL	The Health, Safety and Environmental Committee is responsible for: • developing a Health, Safety and Environmental Policy, setting goals and assigning tasks, assessing significant risks and opportunities in HSE, analyzing environmental issues (including climate-related issues) and the achievement of key performance indicators (KPIs) • analyzing and approving any HSE initiatives and assessing their effectiveness • evaluating compliance of LUKOIL Group’s activities with applicable laws and other HSE requirements • preparing proposals on the improvement of LUKOIL Group’s HSE management system.
PJSC LUKOIL	Heads of relevant divisions manage the implementation of strategic and targeted programs that address sustainable development issues, including climate, water use, biodiversity and waste.
LUKOIL Group entities	
Heads of LUKOIL Group entities	Make operational decisions at enterprise level to ensure that industrial safety, environmental protection, and injury rate targets are attained as required. Ensure the achievement of targets approved by the Group’s Corporate Center.
Heads of dedicated business units	Lead the implementation of strategic and target programs.

BOARD OF DIRECTORS

During the reporting year, the members of the Board of Directors’ became much more active in discussing and promoting the sustainability and climate agenda at the Company. Relevant matters were included in the agenda of several meetings during the reporting year. The number of matters raised and related tasks doubled year-on-year.

For more detail, see the section of the Report entitled “Climate Change.”

» For more detail, see p. 48

The Board of Directors also enhanced its engagement with stakeholders on climate change. Specifically, a meeting was held with representatives of an investment fund participating in the Climate Action 100+ initiative.

Independent Member of PJSC LUKOIL Board of Directors Toby Gati was actively involved in sustainability and climate change discussions at meetings of the Board of Directors and the Sustainability Task Force and provided recommendations, including regarding the improvement of disclosures.

The goals and objectives for further development of sustainable development activities are set. Significant focus will be placed on the development of measures in response to climate change.

Another important focus area will be the enhancement of occupational and environmental safety, as well as the overall improvement of the sustainability management system and practices, and determination of the contribution to the United Nations’ Sustainable Development Goals.



A PARTIAL LIST OF MATTERS related to sustainable development discussed by the Board of Directors in 2019 included:



Implementation of the Strategic Development Program of LUKOIL Group during 2018-2027



Potential for growth given the transition to a low-carbon economy



Key global trends in the liquid hydrocarbon market in the period through 2035



Enhancement of the risk management and internal control system



Anti-corruption measures



Implementation of the Code of Business Conduct and Ethics of PJSC LUKOIL



Occupational health and safety status and measures to improve the level of work safety



Engagement with PJSC LUKOIL investors and shareholders



LUKOIL Group’s Sustainability Report for 2018



Implementation of target and functional programs

Composition and activities of the Board of Directors and its committees in 2019

Indicators	Board of Directors of PJSC LUKOIL	Strategy, Investment and Sustainability Committee	Audit Committee	Human Resources and Compensation Committee
	11	4	3	3
Number of members				
Types of members	6/3/2	2/2/0	3/0/0	3/0/0
independent				
executive ¹				
non-executive directors				
Gender composition	2/9	1/3	0/3	0/3
women				
men				
Number of meetings	9/11	7/0	8/0	6/1
personal				
absentee ²				
Number of sustainability development matters discussed	20	15	4	5
Attendance rate at personal meetings, %	93	82	92	83

Information on the structure of PJSC LUKOIL Board of Directors, compliance of the Company's corporate governance practices with the Bank of Russia's Corporate Governance Code, details of the Board members and other information are published in annual reports and on the Company's website in the section "Corporate Governance":



STRATEGY, INVESTMENT AND SUSTAINABILITY COMMITTEE

The Strategy, Investment and Sustainability Committee plays a key role in advancing LUKOIL Group's sustainability efforts. The number of matters related to sustainable development on the Committee's agenda has risen significantly. All relevant matters put before the Board of Directors are first considered by the Committee. In the reporting year, the Committee also considered the development of investor relationships, implementation of functional programs, and a cost-saving program.

AUDIT COMMITTEE

Key matters discussed by the Committee members in the reporting year concerned the systematization of anti-corruption measures, external assessment of a PJSC LUKOIL internal audit methodology, as well as further improvement of the risk management system. An independent assessment of the internal audit was conducted.

The Board of Directors charged the Committee with the drafting of an Anticorruption Policy, an internal regulatory document which will systemize the Company's anticorruption position and outline the anticorruption framework, goals and objectives.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

Matters discussed by the Committee at its meetings included, among others, processes related to personnel management, improvement of the compensation and incentive system for the Company's senior executives, effectiveness of prevention measures ensuring that employees' labor rights and interests are respected, and the results of a staff morale and motivation survey conducted at LUKOIL Group entities. Committee

members also considered issues pertaining to the implementation of ethical standards and analyzed feedback from employees on those issues.

The Committee conducted an analysis of matters related to the external assessment of the Board of Directors' performance in the reporting year and made a decision to consider the feasibility of implementing the external assessment.

Full information on the Board committees' activities is available in the Company's Annual Report for 2019

For more details see p. 108

SUSTAINABILITY TASK FORCE

As the volume of reporting information continually grew, sustainability reporting standards expanded and became more complicated and, especially given the need to enhance relations with all groups of stakeholders, the functions of the Task Force were expanded in 2019 resulting in its renaming.

In 2019, the Sustainability Task Force conducted four meetings. Toby Gati, an independent member of the Board of Directors, and experts on various sustainability areas were present at some of those meetings. Among other things, the following issues were examined in 2019:

- methodology for identifying material topics of the Sustainability Report
- reporting boundaries
- legal regulation of climate change matters in Russia
- assessment of reporting boundaries and preparation of a GHG emission inventory
- the framework for and stages of preparation of the Report
- development of Regulations on the Preparation of a Sustainability Report
- feedback from investors.

To strengthen the competencies of the Task Force members, a workshop titled "The outlook for legal regulation of sustainability matters in the Russian Federation after the ratification of the Paris Agreement" was held to which independent experts from KPMG were invited.

With the active involvement of the Corporate Secretary, the level of informing the Board of Directors and management on the most relevant issues of sustainable development for stakeholders was increased. In particular, meetings¹ with a representative of Hermes, an investment fund participating in the Climate Action 100+ initiative, were organized where the goals of the initiative and investor's informational expectations were discussed with Task Force members. An expert on climate reporting with a solid track record with CDP presented current projects to monitor corporate activity in mitigation and adaptation to climate change.

The Company is stepping up its efforts to raise awareness of stakeholders about LUKOIL Group's position on and contribution to the attainment of the United Nations' Sustainable Development Goals. A brochure "Contribution to the Attainment of the UN Sustainable Development Goals" was published by LUKOIL.

The Company plans to continue its efforts to implement a sustainability management system, including the adoption of the following documents in 2020:

- Anticorruption policy
- Program for Development of Renewable Energy Sources
- Regulations on the Preparation of a Sustainability Report.

LUKOIL will also keep working to ensure Company adaptation to climate change.

¹ According to the recommendations of the Corporate Governance Code, executive directors are understood not only as members of the Management Committee of PJSC LUKOIL, but also as persons having working relationships with the Company.
² It is common practice for PJSC LUKOIL to hold absentee meetings. Typically, absentee meetings are called to discuss matters requiring quick approval that cannot be planned beforehand.

¹ The meetings took place in January-February 2020.

HEALTH, SAFETY AND ENVIRONMENTAL (HSE) COMMITTEE OF PJSC LUKOIL

The Committee is an effective mechanism for liaison between the Company's management and functional and linear divisions of PJSC LUKOIL and LUKOIL Group entities on industrial, fire and environmental safety, health and accident prevention.

The Committee was established in 2016 to advance the HSE management system in LUKOIL Group and is led by Ravil Maganov, a member of the Board of Directors, thus ensuring communication of health, safety and environmental matters to the Board of Directors. The Board of Directors is presented annually a report on the state of the management system in those areas, and the results of activities and initiatives undertaken to improve the management quality and speed of decision-making.

The Committee holds meetings twice a year. The first meeting is held to consider material risk registers

for LUKOIL Group in HSE issues, as well as regulatory developments in countries where LUKOIL is present. Those factors are subsequently taken into account during the development and implementation of target programs. The second meeting is devoted to taking stock of progress of health and safety programs for the reporting

year, making plans for the future period, and considering initiatives to promote a culture of safety at the Company.

In 2019, the Committee took several decisions to further promote a culture of safety and leadership culture and to introduce changes to target programs for 2020–2023.

Snapshot of the Health, Safety and Environmental (HSE) Committee of PJSC LUKOIL (2019)		
NUMBER OF MEMBERS		11
COMPOSITION	VICE PRESIDENTS including those who are members of the Board of Directors	10
	HEADS OF DEPARTMENTS	1
NUMBER OF MEETINGS		2
NUMBER OF MATTERS DISCUSSED		7

EMERGENCY AND ACCIDENT WARNING SYSTEM

The Company has a system for monitoring, warning, communication and reporting on emergency situations and accidents covering all levels of management of LUKOIL Group, including the Board of Directors and the Health, Safety and Environmental Committee of PJSC LUKOIL.

The functioning of the system is regulated by standards and local regulations developed on the basis of legal requirements.

In order to improve the efficiency of PJSC LUKOIL's response to potential accidents

with risks of serious consequences (death of employees and significant damages), the Operational Headquarters was established¹ to deal with accidents at hazardous production facilities of LUKOIL Group entities.

CORPORATE SECRETARY

Corporate Secretary Natalia Podolskaya pays significant attention to sustainable development matters. Taking into account that sustainable development is identified as one of the goals of LUKOIL Group's strategic development, the Corporate Secretary is committed to supporting the initiatives of the Company and encouraging the practical application of expertise and exceptional competencies of the Board of Directors members in this field. As a result, Natalia Podolskaya facilitated the participation of Leonid Fedun, a member of the Board of Directors of PJSC LUKOIL,

Vice President for Strategic Development of PJSC LUKOIL, and Toby Gati, an independent member of the Board of Directors, in active work to improve the sustainable development system.

The Corporate Secretary is actively involved in coordinating the preparation of the sustainability reporting of LUKOIL Group and interacts with the relevant structural divisions of the Company, as well as with members of the Strategy, Investment and Sustainability Committee of PJSC LUKOIL's Board of Directors. Special focus is placed on the formulation

of the agenda and preparation of meetings of the Sustainability Task Force, including the invitation of external experts and representatives of various stakeholders to the meetings.

In order to promote stakeholder engagement, the Corporate Secretary deals with incoming requests using all available information channels: mail, e-mail, and a dedicated internal portal of the Sustainability Task Force. All requests are processed and discussed with structural units with the subsequent provision of comprehensive information on requests and proposals received.

SUSTAINABLE DEVELOPMENT AWARDS IN 2019



For the second year in a row, PJSC LUKOIL ranks first in the ESG rating managed by the rating agency RAEX. The rating evaluates the way in which environmental, social and managerial risks of a company are taken into account in its strategy and management, which indicates the long-term sustainability of the business.



Based on evaluation results, LUKOIL Group's Sustainability Report for 2018 was the prize winner in the RSPP nomination for "The Best Report on Corporate Social Responsibility and Sustainable Development" in the Moscow Exchange's 22nd Annual Report Competition in 2018.



PJSC LUKOIL was one of the winners of the contest for the best socially responsible oil and gas companies of 2018. Results of the contest were announced at the Ninth International Gas Forum in Saint-Petersburg. The contest is organized by the Ministry of Energy of the Russian Federation. The Company was awarded certificates for the development of charitable activities, for the best public non-financial report by an oil and gas company, and also won a certificate with a special badge of the Russian fuel and energy complex for its active social policy.

RISK MANAGEMENT

The Company's management places considerable emphasis on risk management issues to provide reasonable assurance as to the achievement of strategic goals in the face of uncertainties and negative factors.

PJSC LUKOIL regularly identifies, describes, evaluates and monitors possible events that could adversely affect the Company's activities, develops measures to prevent their occurrence or to minimize the negative impact in case such events occur. The Company constantly works on the identification and assessment of new risks and on updating relevant information in the corporate information system.

LUKOIL Group's Risk Management and Internal Control Policy sets forth unified and mandatory basic principles and approaches to organizing the risk management system of the Company, and the key objectives of the system, as well as key tasks of the risk management system participants at PJSC LUKOIL.

Key sustainability risks include:

- climate change risks
- health, safety and environmental risks
- risk of shortages of qualified personnel
- reputational risks.

Certain steps were taken to enhance the risk management system in the reporting year.

- Work continued to improve the practice of accounting for risks when making key investment decisions.
- Draft internal regulatory documents were prepared and forwarded for approval. These were developed with the aim of strengthening the risk management system at LUKOIL Group entities in accordance with PJSC LUKOIL Risk Management and Internal Control Policy, as well as improving the Company's investment activities and corporate governance.

Risks are managed at all the levels: at the level of LUKOIL Group entities, PJSC LUKOIL and at the level of the Board of Directors. Information on the risk profile of LUKOIL Group entities is included in annual reports which are reviewed

by the Board of Directors of PJSC LUKOIL and the Audit Committee of the Board of Directors of PJSC LUKOIL.

Sixteen groups of the most significant risks affecting the business activities of LUKOIL Group entities were identified. The qualitative and quantitative assessment of such risks is carried out annually according to risk probability criteria and criteria on the magnitude of the consequences. Risk appetite was defined for each material risk, and measures were developed to mitigate or eliminate their negative impact. The staff of the Risk Management Division and relevant blocks monitor the implementation and effectiveness of the measures.

By reporting the risks identified, we inform stakeholders about certain circumstances that may worsen the performance of the Company with some certain probability. At the same time, PJSC LUKOIL is making due efforts to minimize the risks associated with its own production activities in the regions of where the Company operates.

The text of PJSC LUKOIL Risk Management and Internal Control Policy is available on PJSC LUKOIL website at:



¹ Order No. 48 of PJSC LUKOIL dated 23 March 2015

A list of key sustainability risks

DESCRIPTION OF RISK CATEGORY

RISK MANAGEMENT AND MITIGATION ACTIVITIES

Climate change risks

Strengthened climate change regulations could adversely impact operations of PJSC LUKOIL as a major fossil fuel producer and greenhouse gas emitter by driving costs up and performance down. Additionally, LUKOIL Group operates in various regions with hard-to-predict potential climate change impacts that may result in a significant adverse effect.

We minimize this risk by:

- recording greenhouse gas emissions and planning initiatives aimed at their control;
- carrying out constant monitoring of relevant legislative changes and taking steps to obtain information about them at the preliminary discussion stage, as well as ensuring our representatives participate during the preliminary discussions so that the risks and uncertainties that may arise from new legislative initiatives are clarified and our views in relation to the proposed changes have been represented;
- taking climate change risk into account when designing and constructing facilities in environmentally sensitive areas (the Far North, offshore facilities).

» For more detail, see the section of the Report titled "Climate Change"

Health, safety and environmental risks

The Company's facilities are exposed to risks of process disruptions, hazardous releases, environmental damage, accidents, fires, and incidents that may result in unscheduled idle time at these facilities

To mitigate these risks, we designed and successfully deployed the Environmental Protection, Occupational Health and Safety Management System certified to ISO 14001 and OHSAS 18001. The following key initiatives are being implemented:

- target corporate HSE programs;
- industrial control over the operation of hazardous production facilities;
- a process ensuring contractors' end-to-end compliance with mandatory HSE requirements;
- development of leadership and safety culture;
- the appointment of qualified staff across various business levels;
- development of Plans to Localize and Mitigate the Consequences of Accidents at Hazardous Production Facilities (PLMA) and the Spill Prevention, Control, and Countermeasure (SPCC) Plans; maintaining a pool of emergency personnel and resources; and training personnel who operate hazardous production facilities as well as the emergency response teams applying PLMA and SPCC Plans.

» For more detail, see the sections of the Report "Safety" and "Environment"

Risk of shortage of qualified personnel

Insufficient skills or qualifications of personnel may have an adverse effect on our financial performance

To mitigate this risk, we focus on the comprehensive development of our talent pool. LUKOIL's talent management strategy is aligned with its development strategy and the staffing demand of its business segments based on planning and budgeting processes that enable the workforce to be efficiently reallocated through insourcing as well as flexible recruitment, professional training, and developing talent.

» For more detail, see the section of the Report "Our Staff"

Reputational risks

PJSC LUKOIL is exposed to various factors that may cause reputational risks due to both internal and external factors, including noncompliance with statutory requirements, constituent documents, and internal regulations, as well as through breach of contractual obligations, poor product quality, and a rise in negative perceptions of our financial stability and position

To mitigate this risk, we make efforts to:

- maintain regular communication with our stakeholders;
- providing unbiased information on financial and operational performance in a timely manner;
- ensure continuous monitoring of compliance with statutory requirements and effective agreements;
- effect timely payments to counterparties.

The company controls the quality of its products and services. For instance, the Filling Stations Hotline has been set up to promptly address any comments and suggestions regarding filling stations operations. We pay close attention to safety and environmental protection and operate in line with the best HSE standards. We place a great emphasis on social responsibility and working conditions, maintaining and improving our effective occupational health and social security framework through targeted programs.

» See more in the sections of the Report on "Ethics and Statutory Compliance," "Safety," "Environment," "Our Staff" and "Communities."

The risk management system also comprises the following categories which includes risks and respective mitigation actions:

strategic, country, competitive risks, macroeconomic, financial, legal and industrial risks, risks of terrorist acts, illegal actions of third parties, etc.



A full description of the risks and their management measures is disclosed in line with regulatory requirements, as well as in annual reports of PJSC LUKOIL. A detailed description of the risk management system, including the stages, organizational structure and functional map of the participants, is provided in Section "Corporate Governance" of the Annual Report for 2019.

» For more details see p. 123

ETHICS AND STATUTORY COMPLIANCE

ETHICAL STANDARDS

Adherence to ethical standards is at the core of our corporate culture. These standards are set forth in the PJSC LUKOIL Code of Business Conduct and Ethics and cover various aspects, including:

- respect for human rights (including labor rights, the rights of local communities and small indigenous peoples, and freedom of association and trade union activity)
- zero tolerance towards and combatting corruption and fraudulent activities
- adherence to fair competition rules
- statutory compliance.

The principles of the Code of Business Conduct and Ethics are consistent with the provisions of the United Nations and the International Labor Organization (ILO) conventions ratified by the Russian Federation, including those related to the observance of human rights and the prevention of corruption.

For more detail, see **Appendix 6**.

We promote ethical behaviors among our business partners, suppliers and contractors, informing them of our rules, and strongly suggest them to familiarize themselves with the PJSC LUKOIL Code of Business Conduct and Ethics, where all basic principles regarding human rights are stated, before signing any contract.

This document can be found on the Company's website at :



The Business Ethics Commission led by the President of PJSC LUKOIL considers all aspects of ethical behaviors demonstrated by the Company's staff. Any staff member may contact the Business Ethics Commission using any available communication means if they think that their rights or interests have

been violated. All the reports received are handled by the Commission's Secretary. Staff members may provide a report anonymously, which ensures their protection and the confidentiality of the reports. The Company provides communication tools for such cases which are available around the clock (e-mail, a confidential hotline).

The Company has grievance procedures in place, enabling staff to provide suggestions on the work of the mechanism currently in place, thus helping the Company get a better understanding of stakeholders' needs and issues.

In 2019, HR divisions undertook to familiarize employees of LUKOIL Group entities in Russia and abroad with the Code of Business Conduct and Ethics. This is included in the list of documents that new staff must read as part of the hiring process. PJSC LUKOIL employees acknowledge in writing that they have read the Code of Business Conduct and Ethics.

Heightened awareness among employees and practical implementation of the provisions of the document led to an increase in reports addressed to the Business Ethics Commission. In 2019, seven reports were received. The reports mainly concerned the clarification of procedures for interaction between managers and staff, matters relating to vacation, and handling procedures for reports. All the documented issues were investigated and necessary measures taken.

In 2019, during an internal audit, 53 cases of violation of local regulatory acts, that are obligatory for execution, were revealed in the organizations of LUKOIL Group. Entities took measures to prevent such violations in the future. At the same time, there were no violations of the norms and provisions of the Code of Business Conduct and Ethics of PJSC LUKOIL. Identified cases of violations are not significant, that is, do not affect the achievement of the strategic goals of the Company.

Stakeholders can contact the Business Ethics Commission using any available communication channels, including in English: **ethics@lukoil.com** (available 24/7), via delivery of a written report to the Commission, or by telephone. The contact information of the Business Ethics Commission is provided in the Code of Business Conduct and Ethics of PJSC LUKOIL.



STATUTORY COMPLIANCE

The Company respects laws of the countries where its facilities and offices operate, strives to prevent any violations of law, and supports the principles of free and fair competition and fair business conduct.

No material claims¹ relating to any violations of anti-trust, product quality and labor relations laws were initiated against the Company in 2019. One significant fine amounting to RUB 68.9 million relating to the Company's environmental impact was paid in Russia (see Section on "Environmental Protection").

The Company publishes a Report on Budgetary Contributions annually. This reporting is aimed at increasing the transparency of the Company's payments made in the countries of operations. Reports are available on the corporate website:



LUKOIL Group entities comply with the tax legislation in effect in the countries in which they operate. In 2019, the following taxes¹ were paid:

- abroad: USD 3.3 billion
- in the Russian Federation: RUB 1,122 billion, including RUB 854 billion to the federal budget,

RUB 127 billion to the budgets of Russia's constituent entities, and RUB 0.54 billion to local budgets; RUB 140 billion in excise taxes.

ANTICORRUPTION MEASURES

LUKOIL promotes a zero tolerance approach when it comes to corruption. The Company does not tolerate any payments or other forms of incentives provided to representatives of state authorities.

The rules of anti-corruption behavior are included in the set of internal standards for many business processes, including the ones that regulate ensuring corporate security and confidentiality of information, conducting tender

procedures and preventing conflicts of interest.

In foreign countries, in addition to corporate-wide regulations, local regulatory documents can apply, which were adopted either voluntarily or in accordance with local legislation and govern economic security and anticorruption issues. For example, the Company's operations in Uzbekistan are governed by the Anticorruption

Regulations of LLC LUKOIL Uzbekistan Operating Company². Based on the commitment to high ethical standards of doing business, the Board of Directors decided to develop a document establishing common principles, goals and objectives to combat corruption, and therefore instructions were given to draft such a document and submit it to the Board for its approval in 2020.

HUMAN RIGHTS

The Company reaffirms its commitment to the principles of human rights compliance, including freedom of speech, set forth in the Universal Declaration of Human Rights and other UN documents, such as UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the Voluntary Principles on Security and Human Rights (see **Appendix 6**). The Company prohibits any forms of violence and violation of human dignity in compliance with the Russian Constitution. The Company expects its business partners to respect and apply the same principles in this area.

The Company respects and strictly observes human rights. A manifestation of aggression³ in any form is unacceptable in the Company. The company considers it unacceptable to obstruct the activities of human rights defenders and shows due respect for human rights activities carried out within the legal framework. The Company expects that similar approaches are applied by its partners. If

a violation of human rights is committed as a result of the activities of the Company and/or its individual representatives, LUKOIL undertakes to take measures to eliminate the consequences of such violations.

Entering contractual relationship with our partners, we inform them of our high requirements for ethical business conduct and respect for human rights, and urge them to follow these requirements, defining it as a condition for long-term cooperation with our Company.

We inform our employees and other stakeholders about our human rights policy. Standards of human rights compliance are enshrined in the Code of Business Conduct and Ethics of PJSC LUKOIL and are mandatory for all LUKOIL Group entities.

In 2019, there were no received complaints on human rights disregard

in LUKOIL Group entities, including child, forced and slave labor, forced resettlement of indigenous peoples⁴. We believe that human rights are a comprehensive concept that affects all aspects of our activities, including labor rights, the right to a healthy environment, quality products, the rights of indigenous peoples, etc. This Report provides information on what LUKOIL is doing in these areas. At the same time, a top priority for the Company is the prevention of violations of labor rights, the preservation of workers' life and health, and the observance of the rights of local residents whose interests are affected by our facilities.

¹ See **Appendix 7** for the definition of a material claim relating to the breach of law.

¹ The amount of taxes comprises income tax and excise taxes. The calculation methodology for the indicator will be reassessed in line with the GRI Standard 207 Tax 2019.

² Order No. 150 dated 2 April 2018.

³ Aggression means threats, intimidation, legal attacks, physical injuries.

⁴ The hotline has not been contacted concerning any human rights violations (see **Ethics section**).



The Company uses the following tools to monitor the compliance of human rights both in Russia and abroad:



social partnership



annual corporate audits of HR services to verify compliance with labor laws and corporate requirements (HR audits)



surveys on the moral and psychological environment in labor groups



interaction with indigenous minorities of the North (hereinafter - IMN)¹



interaction with local communities where we work

Social partnership

LUKOIL's regular interaction with the International Association of Trade Union Organizations of PJSC LUKOIL (IATUO), the International Labor Organization (ILO) and IndustriALL Global Union helps to implement best practices in complying with labor rights and serves as a platform for social dialogue. We use common principles and approaches to working with staff

in all countries and regions where we are present, taking into account the specifics and characteristics of local culture.

As part of social partnerships, the scope of the social commitments of the Company and trade union organizations that are parties to agreements is revised and updated on a regular basis. Those commitments are documented in collective

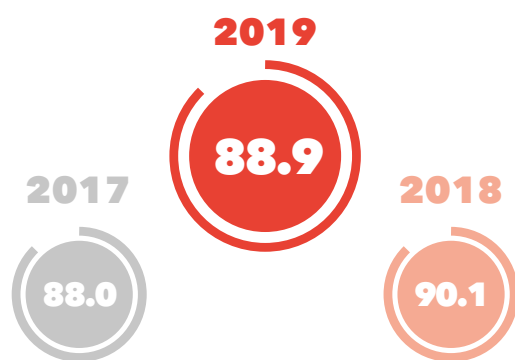
agreements covering all full-time staff. The Russian entities that did not conclude collective agreements are directly covered by the Industry Agreement for Organizations of the Oil and Gas Sectors and the Construction of Oil and Gas Facilities of the Russian Federation.

In 2019, collective agreements were in effect in 49 Russian and 9 foreign entities.

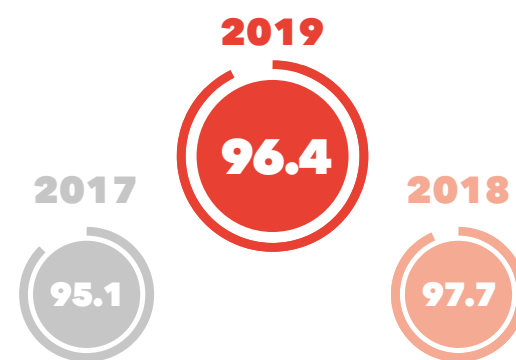
Share of employees covered by collective agreements in LUKOIL Group, %



SHARE OF EMPLOYEES COVERED BY COLLECTIVE AGREEMENTS IN LUKOIL GROUP ENTITIES



SHARE OF RUSSIAN ENTITIES' EMPLOYEES COVERED BY COLLECTIVE AGREEMENTS



HR audits

HR audits involve auditing the processes associated with the documentation of labor relations, payroll, the compliance with labor laws, the Company's regulations, and other requirements covering labor law provisions. HR audits also check the procedure for documenting disciplinary actions that may be associated with employees' non-compliance with the Code of Business Conduct and Ethics (e.g. information on the employment of relatives as direct subordinates may be requested).

Effective management systems are reviewed, including those ensuring non-discrimination. Based on the results of the audit, the Company develops recommendations for the enhancement of personnel management processes. In 2019, audits were conducted in 11 LUKOIL Group entities¹. No material violations of human and labor rights were identified.

Monitoring staff morale and motivation

The company regularly monitors compliance with human rights, including conducting a study of the moral and psychological context in LUKOIL Group entities. In 2019, the results of monitoring the moral and psychological context were reported at a meeting of the Human Resources and Remuneration Committee of the Board of Directors of PJSC LUKOIL. The control section showed a good moral and psychological climate and a high level of satisfaction of the Company's employees with working conditions.

Monitoring of psychological context is conducted by regular surveys (no more than once every two years at the same enterprise). The survey diagnoses the level of employee satisfaction with various aspects of labor and identifies the most significant and most challenging aspects of work according to employees. The survey uses the methodology of the Stockholm School of Economics based on the Employee Satisfaction Index (ESI) model, which is widely used in Europe and in Russia.



The following issues were examined:



entering into and termination of employment contracts



employment of people with disabilities



compliance with the Code of Business Conduct and Ethics



personal data protection



conflicts of interest



labor pay



the employee's right to rest



weekend work and work on holidays, irregular working hours



compliance with vacation schedules, including for workers in jobs with harmful working conditions; other aspects of employment relations.

Interaction with indigenous minorities on land use and activities in the territories of traditional lifestyles

We share the principles enshrined in the UN Declaration on the Rights of Indigenous Peoples, the UN Global Compact and the Resolution of the World Conference on Indigenous Peoples, and are committed to ensuring

a harmonious balance between the economic activities of LUKOIL Group entities in the territories of indigenous minorities of the North and the latter's interests in preserving their traditional lifestyle and economic activity.

¹ According to Russian law, minorities are ethnic groups of no more than 50 thousand people.

¹ Including: LUKOIL-BULGARIA EOOD (Bulgaria), LUKOIL MID-EAST LIMITED (Egypt), Perm Branch of LLC LUKOIL-Engineering PermNIPneft, LUKOIL Uzbekistan Operating Company (Uzbekistan), LLC LUKOIL-Volgogradneftepererabotka, LLC LUKOIL-Permnefteorgsintez, LLC LUKOIL-AERO, LLC LUKOIL-Uralnefteprodukt, LLC LUKOIL-Nizhnevolzhskneft, LLC LUKOIL-Yugnefteprodukt, LLC LUKOIL-Engineering.



LUKOIL respects the rights of indigenous minorities of the North provided for by Russian laws, including the use of resources, the preservation of the environment, the right to use land and other natural resources.

Indigenous minorities of the North live in four regions of our operations: the Khanty-Mansi Autonomous Area – Yugra¹, the Yamal-Nenets Autonomous Area, the Nenets Autonomous Area and the Krasnoyarsk Territory. LUKOIL's operations are historically associated with the territories inhabited by the Khanty and Mansi, the indigenous people of Siberia. Thus, the system of relations with the indigenous minorities of the North began to take shape from the very outset of the Company's activity.

In Russia, subsoil use, including the allocation of land plots in traditional settlement areas and/or areas of economic activity of indigenous minorities of the North, is regulated by state authorities (under license agreements or other documents that entitle companies to use such subsoil sites). The terms and conditions of the use of licensed areas, including providing compensation to indigenous communities, are established by federal and regional authorities. Hence, issues related to respect for the rights of indigenous peoples, including migration issues, are governed by Russian federal and regional legislation.

We fully comply with the conditions set forth in legislation, regularly interact with representatives of indigenous communities, and take their opinion into account when planning and implementing exploration and production projects. The company

seeks to avoid involuntary relocation of people living on the territory of traditional natural resource use. The company applies the Free and Prior Informed Consent principle and seeks to minimize the consequences for those affected by such measures.

In the reporting year, in the course of LUKOIL Group's production activities in areas of traditional settlement and/or economic activity of indigenous minorities in the North, no forced resettlement of indigenous peoples and no complaints regarding the violation of the indigenous minorities' rights by LUKOIL Group entities were registered. Compensation is annually paid to indigenous people: under license obligations in the territory of the Khanty-Mansi Autonomous Area – Yugra (where LUKOIL-Western Siberia, RITEK and LUKOIL-AIK operate) and under agreements with reindeer farms in the territory of the Nenets Autonomous Area (where LUKOIL-Komi operates).

The Company engages representatives of indigenous minorities to participate in decision-making on projects that affect their rights (Articles 27–29 of the Declaration on the Rights of Indigenous Peoples). In particular, in order to obtain a preliminary freely informed consent of the indigenous peoples' representatives, meetings are held at various stages of project implementation: public hearings prior to project implementation (in accordance with the legislation of the Russian Federation), and information events as projects are implemented.

In general, interaction with indigenous minorities of the North is carried out within the framework of federal and regional legislation of the Russian Federation, licensing obligations of LUKOIL Group entities, as well as federal and regional programs to support indigenous peoples. The following mechanisms are used:

- cooperation agreements between PJSC LUKOIL and regional administrations

- economic agreements with the heads of areas of traditional resource use
- agreements on social and economic development with reindeer farms
- collaboration with indigenous community organizations
- support for specific projects through grant financing in the framework of the Competition for Social and Cultural Projects of PJSC LUKOIL.

For more details on Company interaction with indigenous minorities of the North, see



Engagement with local communities

With its wide presence in countries having different cultures and socio-economic patterns, LUKOIL Group uses a variety of methods for interaction with local communities to address emerging issues.

The Company strives to create conditions for unhindered contacts with local residents when implementing its foreign exploration and production projects as an operator. For example, a system of collection and response to complaints and queries was deployed in Uzbekistan. As part of exploration and production projects where the Company is a participant, the interaction with local communities is mainly the responsibility of the operator. LUKOIL informs local communities about its policies and responsible practices whenever required.

In Russia, a large number of events are held for residents of regions where human rights can be discussed, including public hearings, round tables, dialogues, visits to LUKOIL enterprises (for an example, see the "Komi Republic" case study). The practice of engaging in dialogue² has begun to be applied at the Romanian refinery as well.

STAKEHOLDER ENGAGEMENT

The successful implementation of our strategic goals is facilitated by a relationship of trust with stakeholders, including state and local authorities, shareholders and investors, business partners and customers, workers and trade unions, Russian and international organizations, and society as a whole.



STATE LEGISLATIVE AND EXECUTIVE AUTHORITIES

We interact with state legislative and executive authorities of all levels in Russia and with local authorities in foreign countries.

In Russia, representatives of PJSC LUKOIL and LUKOIL Group entities take part on an ongoing basis in discussing legislative initiatives and in the work of advisory groups and expert forums, discussing issues that are topical for the Russian oil and gas industry. Management of PJSC LUKOIL and LUKOIL Group entities engages with the authorities as part of the upgrading of production facilities, signing and implementation of agreements on social and economic cooperation, as well as in regional and international forums.

Leveraging legal mechanisms guaranteeing stakeholder participation in the discussion of draft regulations, the Company participates in the creation of a modern, stable and healthy system of state regulation, using internal corporate processes for monitoring, evaluation, planning, etc.

LUKOIL liaises with regulatory bodies, public associations and non-profit organizations, and monitors regulatory and legislative activities in the Russian Federation on an ongoing basis.



SHAREHOLDERS AND INVESTORS

In order to increase the effectiveness of relations with shareholders the revised version of the Shareholder Relations Policy of PJSC LUKOIL was established by the decision of the Board of Directors of PJSC LUKOIL dated 11 December 2018 (Minutes No.17). The Policy, among other issues, states the principles of equal treatment of all shareholders, as well as the commitment to applying best practices of corporate governance. The observance of shareholders legitimate rights and mutual engagement in the benefit of sustainable and dynamic development of PJSC LUKOIL facilitates creating shareholder value and increasing the reputation of the Company.

Our investors comprise Russian and foreign entities and individuals pursuing various investment strategies. To strengthen investor relations and maintain the investment appeal of the Company, LUKOIL's equity story is communicated to participants in the financial market, including the disclosure of requested information and targeted measures.

In order to attract additional investment in the Company's equity, a shareholder analysis is conducted on an ongoing basis, and groups of investors with whom targeted measures will be carried out are identified. We continually strive to raise the level of information transparency, regularly



WE STRIVE TO BUILD LONG-TERM CONSTRUCTIVE RELATIONS BASED ON THE PRINCIPLES OF PARTNERSHIP, COMPANY PARTICIPATION IN IMPLEMENTING LONG-TERM DEVELOPMENT GOALS, TRANSPARENCY OF OPERATIONS, AND INFORMATION.

These principles are set forth in the Social Code of PJSC LUKOIL and the Code of Business Conduct and Ethics of PJSC LUKOIL.



provide information to representatives of the investment and financial communities using various channels, and react promptly to incoming queries.

In recent years, we can observe a marked upward trend in the number of responsible investors taking into account sustainability factors when making investment decisions. In this regard, cooperation with this group of stakeholders has been expanded (including the organization of meetings with independent members of the Board of Directors), information disclosure in public materials has been improved, and work on systemic issues of sustainable development has been enhanced.

¹ The region was called the Khanty-Mansi Autonomous Area in 1991.

² Dialogue (public dialogue) hereinafter in the Report is an in-person event with the participation of the Company and various stakeholders on a wide range of issues related to corporate social responsibility and sustainable development, in connection with LUKOIL activities in a particular region.

We liaise with international rating agencies and information database owners; we also publish climate reporting as part of the Carbon Disclosure Project (CDP).

One of the key elements of interaction with the investment community is to ensure investor feedback for PJSC LUKOIL governing bodies and management. In response to incoming queries, the level of disclosure of information in financial statements, annual reports, sustainability reports and on the corporate website is constantly increasing.



Efforts of LUKOIL Group's investor relations service were highly rated by the investment community, resulting in the Group receiving an award from the professional magazine Institutional Investor in 2019.



EMPLOYEES AND TRADE UNIONS

Social partnership is at the core of LUKOIL Group's relations with employees and trade unions. The Company has built a social partnership system based on agreements between employer, trade unions and employees. Meetings of employees and representatives of the management of PJSC LUKOIL and LUKOIL Group entities are held regularly.

For many years, LUKOIL has been collaborating with the International Labor Organization (ILO) and IndustriALL Global Union.

The past year marked the hundredth anniversary of the International Labor Organization. Being ILO's only partner in Russia, LUKOIL Group took an active part in the organization of the anniversary events. During the Russian hour of the 24-hour online video marathon, the President of PJSC LUKOIL Vagit Alekperov extended his congratulations on the ILO's anniversary. Also, a meeting of Russian President Vladimir Putin with ILO Director-General G. Ryder was held where the contribution of LUKOIL Group to ILO activities in the Russian Federation was noted.



CLIENTS

Our clients comprise large and medium-sized entities operating in various sectors of the economy and private individuals. We provide our clients with high-quality products and services, and develop innovative products tailored to the needs of regional markets and the individual needs of consumers. Our goal is to reinforce our reputation as a responsible and reliable producer and supplier of energy products.

The Company operates a quality management system covering all the stages a product passes through when moving from the factory to the consumer. LUKOIL applies a responsible approach to customer relations and observes the principles of fair marketing and sales of products. To provide strong support to its customers on any emerging issues, the Company studies customer feedback thoroughly to identify the most pressing issues and research customer satisfaction.



SUPPLIERS AND CONTRACTORS

LUKOIL's supply chain covers entities of various legal forms and sizes, from large companies and small and medium-sized businesses to individual and social entrepreneurs. We are open to cooperation and provide a level playing field. We perform impartial and effective selection of suppliers and contractors through tender procedures in key areas of the Company's business.



SOCIETY

We build our relations with society based on the principles of openness and partnership. Social investment programs are implemented in constant contact with local authorities, mass media, and municipal and public organizations. Significant focus is placed on interaction with the environmental community and residents of the regions and countries in which we work on questions of environmental protection and social issues. The programs are implemented with the participation of experts having a solid track record implementation of social projects in various industries. We respond to queries from foreign, federal and regional media, hold media tours and publish relevant materials.

LUKOIL is also a participant, organizer and sponsor of forums, specialized conferences, roundtables and other events where the Company can interact with other industry players and stakeholder groups noted above on a wide range of topics.

Stakeholder engagement in 2019

STAKEHOLDERS

EVENTS IN 2019

EVENT-RELATED COOPERATION



STATE LEGISLATIVE AND EXECUTIVE AUTHORITIES

Legislative authorities of the Russian Federation

The Company reviewed more than 700 draft regulations and submitted proposals on 260 of them to the federal authorities. Compared to 2018, the share of draft regulations affecting the Company's activities and requiring its response rose by 30%.

Standard-setting initiatives in the field of environmental protection covered issues of compensatory reforestation, emission credits, sanitary protection zones of industrial facilities, and carbon tax

Regional authorities in the Russian Federation

44 events with the participation of LUKOIL President Vagit Alekperov were held, resulting in the signing of 41 documents on cooperation

9 cooperation agreements, 10 protocols and 20 supplementary agreements to existing cooperation agreements

Memorandum of cooperation with the Government of Stavropol Territory

Tripartite agreement between the Ministry of Sports of the Russian Federation, the Government of the Khanty-Mansi Autonomous Area – Yugra and PJSC LUKOIL on the construction of social and sports infrastructure in the territory of the Khanty-Mansi Autonomous Area – Yugra

Ministries of the Russian Federation, local authorities, international organizations

Business trips of PJSC LUKOIL management to production facilities in the regions of operations

Activities of LUKOIL Group entities

International Forum devoted to the Year of Indigenous Languages in Russia (2019) (Khanty-Mansiysk, Russia)

Issues of cultural identity and preservation of national languages in the regions of the Russian Federation

18th Session of the UN Permanent Forum on Indigenous Issues, Round Table "Preservation and Promotion of the Linguistic Heritage of Indigenous Minorities of the North" (New York, the USA)

LUKOIL's experience in the preservation and development of national languages of the indigenous minorities of the North

Extended board meeting of the Federal Agency for Ethnic Affairs (Moscow, Russia)

Joint meetings of deputies of the Republic of Kalmykia's Hural and the Duma of the Khanty-Mansi Autonomous Area – Yugra (Elista and Khanty-Mansiysk, Russia)

Diversity and preservation of languages of the Russian Federation's ethnicities

Tourism development

STAKEHOLDERS

EVENTS IN 2019

EVENT-RELATED COOPERATION



SHAREHOLDERS AND INVESTORS

Shareholders and investors

More than 200 queries from investors and over one thousand of queries from shareholders were handled

6 roadshows, 18 major investment conferences, over 180 meetings and 50 calls with investors were organized

Quarterly conference calls regarding disclosure of the Company's financial performance

A trip for representatives of the investment community to the Nizhny Novgorod refinery was organized in the run-up to MARPOL-2020

Two General Shareholders Meetings were held

Climate strategy and reporting

Measures to reduce emissions of greenhouse gases and pollutants

Oil spill management system and mitigation actions

Land remediation

Waste management

Human rights

Engagement with local communities

Anti-corruption



EMPLOYEES AND TRADE UNIONS

International Labor Organization (ILO)

24-hour online video marathon dedicated to the 100th anniversary of the ILO

Roundtable as part of the 74th session of the UN General Assembly (New York, the USA)

Exhibition dedicated to the anniversary of the ILO and its operations in Russia (Moscow, Russia)

Implementation of the ILO principles in the work of HR companies



SOCIETY

Public authorities, expert and sectoral organizations, the mass media in Russia

National Sustainable Development Forum (Moscow, Russia)

Corporate sustainable development practices, sustainable development programs of LUKOIL Group

Regional governments and industrial enterprises in Russia

Technology Day in the Republic of Udmurtia (Izhevsk), Samara Region (Samara), Tyumen Region (Tyumen), Voronezh Region (Voronezh)

Encouraging regional industrial enterprises to participate in open tenders conducted by PJSC LUKOIL and LUKOIL Group entities. Exchange of experience and participation in events

Industrial Ecology-2019 conference (Moscow, Russia)

Industrial ecology, the prospects for implementation of green economic models

Non-governmental and environmental organizations

Meetings with representatives of the Pechora Rescue Committee, WWF Russia, etc.

Environmental conditions in the Komi Republic

Implementation of the project to rescue the saiga antelope

STAKEHOLDERS

EVENTS IN 2019

EVENT-RELATED COOPERATION



SOCIETY

Local communities and municipal authorities

Roundtable «Sustainable Development of LUKOIL Territories» (Perm, Russia)

Presentation of LUKOIL Group Sustainability Report

State authorities (Rostekhnadzor, Ministry of Emergency Situations), expert community (RSPP, Union of Oil and Gas Producers of Russia), non-governmental and oil and gas organizations

Scientific and technology conference "Industrial and Occupational Safety at Oil and Gas Enterprises"

Corporate best practices in industrial safety, work quality and efficiency improvement

Indigenous minorities of the North, authorities and non-governmental organizations of indigenous minorities of the North in Russia

Meeting «Approval of the Procedure for Compensation of Damages Caused to Indigenous Minorities of the Russian Federation, Their Associations and Persons Belonging to Indigenous Minorities of the Russian Federation» (Kogalym, Russia)

Compensation of damages to the traditional habitat of indigenous minorities of the Russian Federation as a result of the business activity of companies and individuals

Awards to the winners of the "Talents of the Arctic. Children" project (Moscow, Russia)

The experience of PJSC LUKOIL was presented in the area of sustainable development, in particular supporting indigenous minorities of the North, Siberia and the Far East of the Russian Federation

International organizations

Official launch event of the International Year of Indigenous Languages (2019) at UNESCO Headquarters (Paris, France)

Culture preservation of indigenous minorities of the North

Regional and local authorities, non-governmental organizations in foreign countries

Public dialogue opened by the Romanian refinery (Ploesti and Bucharest, Romania)

Launch of the Competition for Social and Cultural Projects; the Company's experience of holding the competition in Russian regions

Authorities and non-governmental organizations in foreign countries

RusPrix Award 2019 (Noordwijk, Netherlands)

Investment cooperation between Russia and the Netherlands, LUKOIL Group's work in the Netherlands

International Folklore Festival Burgas-2019 (Burgas, Bulgaria)

Cooperation between Burgas and Kogalym

Media

Press releases, press conferences

LUKOIL Group strategy and production plans, developments in oil and gas industry regulations, social responsibility

Scientific community

Support for environmental and biodiversity projects and research in Russian regions

Scientific approaches to biodiversity conservation

SUPPLY CHAIN

LUKOIL Group entities procure a significant amount of goods, works and services and interact with a large number of contracting companies annually. At the same time, LUKOIL is also a supplier of goods to consumers based all around the world.

TENDERS

The selection of suppliers of goods, works and services in Russia is performed in accordance with the Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities (hereinafter, the Regulations) and is based on the principles ensuring competitive, unbiased and effective supplier selection. Foreign entities of LUKOIL Group modify the enterprise-wide documents to make them compliant with local laws.

In order to minimize risks, when choosing counterparties the Company is guided by the following criteria:

- criteria for evaluating the technical part of the tender offer include determining the reliability and experience of the bidder, as well as checking the conformity of the goods with technical requirements;
- criteria for evaluating the commercial part of the tender offer include determining the competitiveness of the tender offer.

As part of the development of green procurement practices, we collaborate with a foreign company, which is the world's leading producer of energy efficient pumping equipment.

ANTI-CORRUPTION REQUIREMENTS

Under the Regulations, potential tender participants who, directly or indirectly, offer, have given, or agree to give compensation in any form to an employee of PJSC LUKOIL or LUKOIL Group entities cannot be admitted to tenders.

If any such facts are identified, potential tender participants can be classified as bad-faith suppliers of goods, works, and services. The decision to classify a potential tender participant in this category and disqualify it from a tender is made by the Tender Committee or the Procurement Committee of PJSC LUKOIL.

INDUSTRIAL SAFETY AND OCCUPATIONAL SAFETY REQUIREMENTS

If the subject of the tender requires the need to verify the state of the HSE system of a potential tender participant, experts from PJSC LUKOIL and LUKOIL Group entities perform a comprehensive assessment based on a corporate document¹. The assessment procedure includes²:

- checking for compliance with the international standards OHSAS 18001 and ISO 14001, Russian laws and internal regulations of PJSC LUKOIL;
- ascertaining whether potential tender participants possess necessary licenses, adequately qualified staff, personal protective equipment, and technical capability and technology.



**BASED ON THE RESULTS OF 2019, THE SHARE
OF RUSSIAN SUPPLIERS OF CENTRALIZED MATERIAL
AND TECHNICAL RESOURCES STOOD AT**

94%

**IN TERMS OF THE NUMBER OF SUPPLIERS
AND ROSE SLIGHTLY TO**

94.8%

**IN TERMS OF THE TOTAL VALUE OF PURCHASES
IN RUSSIA YEAR-ON-YEAR.**

During the assessment, the following indicators are taken into account: the occurrence of accidents and fatal accidents; the number of breakdowns and incidents over the past three years; confirmations that trainings have been completed; knowledge testing. Potential tender participants also provide social information, in particular related to observing the working hours of their employees.

That information is included in a candidate's questionnaire evaluating their compliance with the HSE requirements. Based on the questionnaire, experts of the Company perform the assessment of the HSE level of the candidates. In the event of poor score in the assessment, the candidates are not admitted to tender.

For certain types of procurement, technical audits of potential tender participants and mandatory assessments of potential tender participants' employee compliance with corporate requirements of work at the facilities of LUKOIL Group entities are carried out.



IN 2019

92.3%

**OF TENDER
PARTICIPANTS
FOR WHOM HSE
ASSESSMENTS WERE
PRESCRIBED PASSED
THE COMPREHENSIVE
ASSESSMENT
PROCEDURE
SUCCESSFULLY.**

The number of tender participants who successfully passed the HSE assessment procedure rose year-on-year, indicating an improvement in the quality of bids received.

2018

2019

Total number of potential tender participants that submitted bids in tenders for the procurement of goods, works, and services (Russian entities of LUKOIL Group)

4,241

3,330

Including for tenders prescribing an HSE assessment

1,720

NUMBER

1,465

40.6

**PERCENTAGE OF THE TOTAL NUMBER
OF POTENTIAL TENDER PARTICIPANTS
THAT SUBMITTED BIDS**

44.0

Number of potential tender participants admitted to tenders based on the assessment results

1,579

NUMBER

1,352

91.8

**PERCENTAGE OF THE TOTAL
NUMBER OF POTENTIAL TENDER
PARTICIPANTS CHECKED**

92.3

Note. The information for 2018 is provided taking into account the application of a unified approach to selecting reporting data for 2018 and 2019, as well as the update of the corporate database of applicants participating in tenders of PJSC LUKOIL and LUKOIL Group entities in 2019.

Interaction during the implementation of contracts

Under the terms and conditions of contracts to supply goods/works/services, all suppliers and contractors undertake to adhere to the requirements of current laws, as well as those of LUKOIL Group's Health, Safety and Environment Policy in the 21st Century. The following requirements are an integral part of the contracts:

- undergoing introductory / initial workplace briefings before contractors begin the performance of works / provide services at LUKOIL Group entity's facilities, the availability of personal protective equipment in accordance with the nature of the work being performed, confirming that suppliers / contractors have appropriate first-aid skills

- immediately notifying the customer of all accidents that have taken place during the performance of works
- prohibition on the unauthorized accumulation and placement of waste, the discharge of wastewater (liquid waste) and chemicals, the discharge of pollutants into the air, or the contamination of soil with chemicals while performing works at LUKOIL Group entity's facilities.

¹ Pursuant to the "Procedure for Assessing the Health, Safety, and Environment Level of Business Entities Intending to Participate in a Tender."

² The assessment of the candidates for contractors is performed in accordance with an internal regulatory document: Appendix 32 to the Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities approved by a Resolution of OJSC LUKOIL Management Committee dated 30 September 2013 (Minutes No. 19 as amended).

CLIMATE CHANGE



Leonid Fedun

Vice President
for Strategic
Development
of PJSC LUKOIL

Q ARE LUKOIL'S ACTIVITIES ALIGNED WITH THE CURRENT CLIMATE AGENDA

A When it comes to the carbon intensity of the Exploration and Production business segment, LUKOIL has already established itself as a leading company in this area in the oil and gas sector. To maintain this leading position, we are prepared to take further steps to reduce greenhouse gas emissions, and we have a clear vision on how to achieve this.

We are planning to set long-term goals to reduce greenhouse gas emissions, based on external changes and stakeholder requests. The Company also intends to perform an assessment of the impacts of climate change on its production facilities and infrastructure, especially in the Arctic and the permafrost zone.

The priority is to make changes to the corporate governance system, based on best global practices. LUKOIL already takes into account the climate factor when managing risks. We are also taking steps to provide more complete disclosures on greenhouse gas emissions in our public reporting.

Q WHAT IS LUKOIL'S CAPABILITY IN TERMS OF ADAPTING TO THE LOW- CARBON MODEL?

A We are reducing carbon dioxide emissions and are seeing a very positive trend vis-à-vis reducing methane emissions, driven mainly by associated petroleum gas utilization and the implementation of the environmental program.

We have experience in implementing projects that are comparable to the practices of leading oil and gas companies, for example, in the area of renewable energy. Such projects are being implemented at the refinery in Volgograd, where a solar power plant has been built. In the future, we plan to roll out this experience across the Group. We also see new lines of business that can be developed, including technologies for absorbing and disposing of carbon dioxide and the construction of pumped-storage facilities, with priority given to projects with the greatest commercial potential.

In our opinion, an important component of low-carbon development is a system of compensatory measures, such as reforestation and forest management projects.

At the same time, there are a number of factors that may affect the future of the oil industry. Thus an ability to adapt to external changes, combined with a flexible strategic approach, are imperative in modern business.

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REDUCTION
OF EMISSIONS

KEY CHANGES AND RESULTS IN THE REPORTING YEAR



MEASURES AIMED AT REDUCING THE CLIMATIC IMPACTS FROM OPERATIONS OF THE COMPANY WERE CONSIDERED AT THE MEETINGS OF THE BOARD OF DIRECTORS, THE STRATEGY, INVESTMENT AND SUSTAINABILITY COMMITTEE AND THE SUSTAINABILITY TASK FORCE.



AS PER THE COMPANY'S ESTIMATES, ELECTRIC POWER GENERATION FROM RENEWABLE SOURCES HELPS PREVENT ABOUT **500** THOUSAND TONNES OF CO₂E PER YEAR OF GHG EMISSIONS.



THE TASK OF DEVELOPING LONG-TERM GHG EMISSIONS REDUCTION TARGETS WAS SET.



SHARE OF ELECTRIC POWER GENERATION FROM RENEWABLE SOURCES IN 2017-2019 AVERAGED **6%** OF TOTAL COMMERCIAL GENERATION.



IN 2019, METHANE EMISSIONS WERE REDUCED BY **45.6%** AGAINST THE 2016 LEVEL IN RUSSIAN ENTITIES.



EFFICIENT APG USE OF **97.6%** WAS ACHIEVED BY LUKOIL GROUP ENTITIES.



AN AVERAGE ANNUAL REDUCTION IN ENERGY CONSUMPTION FOR 2017-2019 AMOUNTED TO APPROXIMATELY **5** MILLION GIGAJOULES (GJ).



IN 2019, DIRECT GHG EMISSIONS BY RUSSIAN ENTITIES WERE REDUCED BY **3.3%** AGAINST THE 2016 LEVEL (SCOPE 1).



CONTEXT: CLIMATE CHANGE AS OUR COMMON CHALLENGE

The climate change issue has dominated the social agenda for many years now, and in 2019 very close attention was paid to the problem. Climate change and environmental threats led the list in global risks for our planet¹. The climate change problem is of an obviously complex

nature with a wide coverage and requires that efficient solutions be found to challenging tasks carrying long-term consequences.

Given the global nature of LUKOIL Group's business, we are analyzing potential trajectories of the global climate agenda's

development to be able to make a sizable contribution to solving the climate change problem while ensuring our economic growth. We see not only risks resulting from global warming but also new business opportunities arising for LUKOIL Group.

Rising public activity

Despite efforts of the international community and growing investment in a low-carbon economy², extreme weather events and ever more evident climate changes continue to affect

people's lives and our planet's health³. An unprecedented burst of social activity⁴ that ultimately transformed itself into a Global Climate Strike Campaign testifies to an increased social comprehension

of climatic effects and offers prospects of increased pressure on governments and GHG emitters.

The need to act immediately

Estimates⁵ show that nationally determined contributions will not be sufficient to reach the Paris Agreement's primary temperature goal of limiting warming to well below 2°C pre-industrial levels.

Having achieved 55.3 Gt of CO₂E in 2018, GHG emissions continue to grow and there are no indications that

peak values have been reached. Both the academic and expert communities demand that governments and countries take additional urgent climate protection measures and set more ambitious goals. Not only measures to reduce emissions are required but also technologies providing for a higher GHG absorption capacity.

Following the UN Climate Summit (COP 25), 121 countries set more ambitious national goals to reduce GHG emissions, and this may have an impact on the Company's operations in those countries.



¹ Source: Global Risk Report, 2019.

² Sources (examples): Scaling Up Action: Aiming for Net Zero Emissions; Oil and Gas Climate Initiative, 2019; Top Sustainable Business Trends of 2020; Joel Makower, Sustainable Brands, 2019.

³ Sources: Emissions Gap Report 2019. UN Environmental Program, 2019. The Sustainable Development Goals Report 2019. UN, 2019; Carbon Tracker Initiative: <https://www.carbontracker.org/>. Special Report on the Ocean and Cryosphere in a Changing Climate. Intergovernmental Panel on Climate Change (IPCC), 2019 and other IPCC 2019 publications; NASA data: <https://climate.nasa.gov/blog/2942/2020-vision-looking-back-to-drive-forward/>. 2018 Report on Climate Patterns in the Russian Federation. Federal Service for Hydrometeorology and Environmental Monitoring, 2019.

⁴ Sources: BBC, CNN, The Times, The Guardian, etc.

⁵ Sources: Emissions Gap Report 2019. UN Environmental Program, 2019; Report of the Secretary General on the 2019 Climate Action Summit and the Way Forward in 2020. UN, 2019.

Role of the oil and gas sector

Slow rates of structural changes in the transport, power and utilities, agriculture, and manufacturing sectors that directly depend on oil and gas supply, as well as an extensive use of energy resources¹, contribute to the acuteness of the climate issue.

After 2015, the rate of energy intensity reduction in national economies slowed down²: in 2018, only a 1% improvement was seen, while the energy efficiency

growth rate is required to be 3% per year to reach the Paris Agreement's goals. A more rational use of resources opens promising opportunities for both governments and companies.

Being the most affordable energy resources at the moment for the majority of countries, oil and gas are still in high demand. Until new technologies come to the required maturity, 'old' and 'new' power industry will develop on a parallel

track, and this period may be used to fundamentally transform the oil and gas sector.

A progressive development of digital systems and technologies may become a source of new opportunities for the oil and gas sector, including in terms of reducing climate and environmental impacts. An essential transformation of the sector may ensure its climate neutrality in the long term.

Moderate optimism

Still, there has been progress after the signing of the Paris Agreement³. This shows that efficient solutions may be found and the situation may change for the better. LUKOIL expresses its support for the Paris Agreement's goals and is now assessing its abilities to intensify efforts to achieve them.



Relatively new renewable energy sources (solar, wind) are becoming increasingly competitive even when no government aid is provided⁴, and the numbers of new jobs in this sector sometimes exceed those in the traditional power industry.



Oil and gas companies, financial organizations and funds are implementing large-scale carbon dioxide absorption projects as part of the Oil and Gas Climate Initiative.

However, successful efforts of individual countries, companies and projects cannot succeed alone⁵. The risk that collective actions prove to be insufficient increases the likelihood of a worse case scenario. To close the gap, significant investment is required, because a lot of new technologies are still at the early development stage and have not been adequately piloted yet. Therefore, it is highly likely that participation in joint projects⁶ will continue, thus opening new cost efficiency opportunities for the participating companies.



Market mechanisms

One of the major uncertainties of the climate agenda is what global mechanism will be created to govern the sharing of emission reduction obligations.

Although no consensus on setting up a global market for allowances on GHG emissions¹ was reached at COP25, measures for state regulation of climate change are being enhanced at the national level². Projections by price trajectories suggest their growth within various ranges³.

The requirements of the EU climate policy are expected to become even more stringent. In December 2019, as the European Commission has approved the European Green Deal, which aims for carbon neutrality by 2050.

The EU member states have announced the most ambitious plans to achieve net zero pollution by 2050. A reduction prospect in carbon emissions by 50–55% as early as by 2030 (instead of the current goal of 40%) is also being discussed. Measures required to achieve the stated goals are currently being

analyzed, including the introduction of a cross-border import tax⁴. However, experts anticipate difficulties in assuring that the new rules comply with WTO principles and free trade agreements⁵.

In addition, "a fundamental reshaping of finance" is predicted to occur "sooner than most anticipate"⁶. Investors are requiring that companies promptly respond to environmental changes, as the gap creates investment and economic threats⁷. In these circumstances the climate agenda will become a determining factor of upcoming changes, and 2050 will most likely be a crucial year for GHG emitters⁸.

A package of "Sustainable Finance" laws is now being passed in the EU. These laws are expected to significantly influence the finance sector as they will establish the criteria for environmentally and socially responsible economic activity. This will have a particular impact on investments in the fuel and energy complex.



Of the 40 countries where a carbon tax⁹ or GHG emission allowances have been introduced in one form or another, LUKOIL is present in the EU (the EU Emissions Trading Scheme has been launched across the EU, introduced taxes in Finland and Norway) and Mexico (excise tax for import and export of oil products; the amount of the tax or allowance is dependent on the volume of GHG emissions). Also plans to introduce the ETS in Kazakhstan are in place. Introducing the ETS or carbon tax is also being considered in Turkey.

¹ Source: <https://yearbook.enerdata.ru/co2-fuel-combustion/CO2-emissions-data-from-fuel-combustion.html>

² Source: <https://www.iea.org/reports/energy-efficiency-2018>

³ Source: Emissions Gap Report 2019. UN Environmental Program, 2019.

⁴ Source: Global Trends in Renewable Energy Investment 2019. UN Environmental Program, Bloomberg NEF, 2019.

⁵ Source: Resilience to Climate Change? A new Index Shows Why Developing Countries will be Most Affected by 2050. The Economist Intelligent Unit, 2019.

⁶ For example, Three Percent Club: <https://sdg.iisd.org/news/global-coalition-commits-to-3-annual-global-increase-in-energy-efficiency/>

¹ Sources: <https://www.carbonbrief.org/cop25-key-outcomes-agreed-at-the-un-climate-talks-in-madrid>; <https://www.climatechangenews.com/2019/12/16/cop25-achieved-next/>

² Source: State and Trends of Carbon Pricing 2019. World Bank, 2019.

³ Sources: State and Trends of Carbon Pricing 2019. World Bank, 2019; Fiscal Monitor: How to Mitigate Climate Change. International Monetary Fund, 2019. Border carbon adjustment.

⁴ Source: Center for European Reform <https://www.cer.eu/insights/should-eu-tax-imported-co2>; The World Economic Forum: <https://www.weforum.org/agenda/2019/05/the-case-for-climate-tariffs/>

⁵ Source: Larry Fink, Chairman and Chief Executive Officer of BlackRock, a major asset manager, in his annual letter to portfolio managers. <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

⁶ Source: RSF Social Finance CEO Jasper van Brakel: <https://sustainablebrands.com/read/defining-the-next-economy/we-need-a-business-revolution-and-we-can-t-base-it-on-the-kindness-of-ceos>

⁷ Source: UN-convened Net-Zero Asset Owner Alliance.

⁸ A "carbon tax" is a fee imposed on the burning of carbon-based fuels (coal, oil, gas).

Russia

In 2019, Russia acceded to the Paris Agreement, becoming one of the parties establishing the global climate agenda and officially acknowledging the significance of collective efforts to tackle climate change challenges.

Russia is among the world's five largest emitters of greenhouse gases, along with China, the United States, the EU and India¹. At the same time, Russia has substantial potential to mitigate a negative impact on the climate by enhancing its energy efficiency, taking measures to promote reduction of CO₂ emissions and forest restoration, and taking steps in other areas².

A National Action Plan for the First Stage of Adaptation to Climate Change for the Period up to 2022 was approved by the Government of the Russian Federation. Among other steps to be taken, strategic

measures and plans for the fuel and energy complex and the Arctic Zone of the Russian Federation will be developed at the national level.

The 2019 debates of the draft Federal Law "On the State Regulation of Greenhouse Gas Emissions and on Amendments to Certain Legislative Acts of the Russian Federation" demonstrated that the legal framework in furtherance of restricting emissions and implementing economic mechanisms may be established only over a longer time frame. In March 2020, the Ministry of Economic Development of the Russian Federation elaborated a draft of Russia's long-term low-carbon development strategy up to 2050³, which presents the baseline scenario of low-carbon development. Three other scenarios – an intense scenario, an inertial scenario and a scenario of development without state support – are also considered.



LUKOIL is already taking decisions on the transformation of the system used to manage the climate issue, and is actively involved in identifying new ideas and opportunities, with national plans, GHG emission policy, and global best practices taken into account.

APPROACHES TO MANAGING CLIMATE CHANGE ISSUES

During 2019, a notable progress was achieved in managing climate change issues at LUKOIL, a decision was made to integrate climate issues into LUKOIL Group's Strategic Development Program.

MANAGEMENT SYSTEM

	CHANGES DURING 2019	KEY MID-TERM TASKS
 GOVERNANCE	The Board of Directors considered the issue of LUKOIL Group's Climate Strategy. Expert discussion of the climate change topic as part of the Sustainability Task Force in consultation with Toby Gati, a member of the Board of Directors	Plans: • further enhancement of the climate change management system
 STRATEGY	Implemented: • scenario analysis of the influence of climatic factors on the Company's business to 2030; • analysis of the strategies of oil and gas companies	Plans: • to develop long-term goals to reduce GHG emissions, with account taken of the Paris Agreement • to evaluate GHG reduction potential. The work will be supervised by Vagit Alekperov, President of PJSC LUKOIL.
 RISKS	The Company has the Risk Management System in place, which also anticipates management of climate-related risks	Plans: • to implement the procedure for assessing climate change influence on production facilities and infrastructure
 INDICATORS	Data related to GHG emissions is provided in the Sustainability Report, the Annual Report, The Data Book and the CDP	Plans: • to perform an extensive GHG emissions inventory • to determine the reporting climate boundaries pursuant to the GHG Protocol¹

¹ Sources: Carbon Tracker Initiative, The Moscow Times (<https://www.themoscowtimes.com/2019/09/30/the-cost-of-carbon-in-russia-a67496>).
² Sources: CO₂ absorption by the forests in Russia in the context of the Paris Agreement, WWF Russia, 2018; <http://duma.gov.ru/news/45976/>
³ Source: https://economy.gov.ru/material/file/babacbb75d32d90e28d3298582d13a75/proekt_strategii.pdf

¹ The GHG Protocol (Greenhouse Gas Protocol, <https://ghgprotocol.org/>) is an international standard applied to account and manage GHG emissions from private and public sector operations, value chains and mitigation actions. The standard is a joint project of the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD).

MANAGEMENT: ROLE OF THE BOARD OF DIRECTORS

In 2019, outstanding work was performed to shape the Company's position on climate change issues. Two meetings of the Board of Directors were held (16 October 2019 and 13 January 2020) to address these issues. The key GHG emission points, factors driving emission dynamics, as well as opportunities to reduce GHG emissions in the long-term were discussed.

In December 2019, three development scenarios for the global energy system and the Russian oil and gas industry for the period up to 2035 and 2100 in terms of climate change issues were presented¹. At the meeting of the Board of Directors held in January, Leonid Fedun, Vice President for Strategic Development of PJSC LUKOIL, presented a report on climate scenarios and global trends in the climate agenda.

The Board of Directors set medium-term tasks, implementation of which will guarantee that the Company makes a solid contribution to the achievement of the UN SDG 13 and the Paris Agreement's goals. The tasks set includes the following among others:

- determination of the projected GHG emissions reduction level, along with the scope and content of compensatory measures;
- assessment of the impact of the climate change on production facilities and essential infrastructure, especially in vulnerable territories (the Arctic, permafrost), preparation of a list of facilities and territories falling within the scope of the assessment;
- incorporation of internal mechanisms designed to mitigate harmful impacts on the climate, stress testing of investment projects in terms of external regulating measures applicable to GHG emissions.



Further GHG emissions reduction goals are to be set and a related action plan is to be developed. It is our aspiration to actively participate in public debate over climate change issues and to interact with key stakeholders both in Russia and abroad.

AREAS FOR ACTION

LUKOIL Group's Climate Strategy will build upon its current experience in delivering low-carbon projects comparable with similar projects implemented by the leading oil and gas companies.

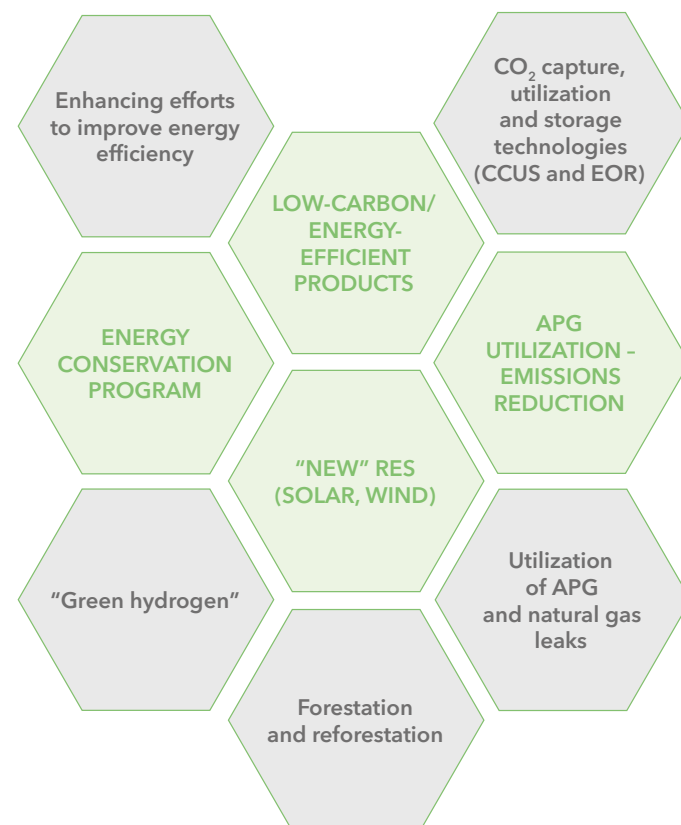
Our ambition for the future is to satisfy our customers' demand for energy resources, while significantly reducing GHG emissions and preserving financial stability.



Current projects to reduce climate impacts



Low-carbon project areas under consideration



APG utilization

Efficient APG use of 97.6% was achieved by LUKOIL Group entities in 2019. Further work in this area will involve the implementation of projects as part of the World Bank and UN initiative "Zero Routine Flaring by 2030."



Reducing GHG emissions at oil refineries

At our oil refineries projects to reduce carbon dioxide emissions into the atmosphere either are or will soon be under way.

see the following case study on page 58



Greater energy efficiency

Owing to the use of secondary energy resources and the development of our own cogeneration facilities, the Company's production needs are satisfied with no increase in direct GHG emissions, with reduced volumes of purchased energy resources and reduced indirect GHG emissions. The average annual reduction in energy consumption for 2017-2019 amounted to approximately 5 million GJ. Potential for further reduction in energy consumption is based on the implementation of investment projects at oil refineries focused on construction, equipment retrofitting and upgrading, as well as improving the efficiency of power generation facilities.



Renewable energy sector

The installed generating capacity of renewable energy sources rose to 395 MW. The share of 'green' energy generated in 2017-2019 averaged 6% of total commercial generation. According to Company estimates, power generation from renewable sources helps prevent around 500 thousand tonnes of CO₂E per year of GHG emissions. We are planning to proceed with RES projects both in Russia and abroad.



New areas

In addition to the areas noted above, we are seeking to utilize the most suitable CO₂ capture and storage technologies (CCS and EOR), find solutions designed to reduce natural gas and CO₂ emissions, and implement compensatory measures.

¹. "Major Trends in the Global Liquid Hydrocarbon Market to 2035" report:
<http://www.lukoil.ru/Business/Futuremarketrends>.

GOALS AND INDICATORS

LUKOIL demonstrates a sustained upward trend in reducing GHG emissions and intends to continue active work to step up efforts in this area.

In 2019, the Company surpassed its direct GHG emissions reduction target for Russian entities by two percentage points – GHG emissions were reduced by 3.3% against the 2016 level. An upward trend in reducing GHG emissions was achieved even with the growth in hydrocarbon production and refining volumes at Russian entities observed since 2016 (+1% and +6%, respectively). In the 2019 reporting year, the Company committed to determining future GHG emissions reduction targets, with progress to be reported by the Company on a regular basis.

In 2019, direct GHG emissions amounted to 37.2 million tonnes of CO₂E, of which Russian entities accounted for 81%, and foreign entities for 19%.

LUKOIL Group entities that have a material impact through GHG emissions are included in the reporting: 29 Russian¹ and four foreign entities (three oil refineries in Italy, Romania and Bulgaria, and one operating company in Uzbekistan).

In 2019, the data collection scope was defined more precisely. Unlike in previous years, emissions of natural gas used for LUKOIL-Komi's in-house needs were taken into account in the reporting year, which had a significant influence on the dynamics of gross and specific indicators for exploration and production entities in Russia. Emission calculations for foreign entities included additional emission points of a power complex within a Romanian oil refinery (which became part of the refinery in 2019) and a catalytic cracking and reforming unit at a Bulgarian oil refinery (included as recommended by HSB

Solomon Associated LLC according to the methodology applied²).

In Russia, the main contribution (around 80%) to the total direct emissions is made by fixed fuel combustion sources. Flaring made up about 10% of the total emissions and was at the same level as emissions from production processes.

By virtue of projects on efficient APG use, methane emissions reduced almost twofold (45.6% against the 2016 level). Almost the entire volume (more than 90%) of methane emissions comes from oil and gas production processes (in the process of APG extraction, during preventive maintenance work on equipment and in cases of equipment failures).

Indicators	2016 (baseline)	2017	2018	2019
1. Direct gross GHG emissions (Scope 1), million tonnes of CO₂E				
LUKOIL Group, including	38.02	37.85	36.44	37.22
1.1. Russian entities	31.29	31.14	29.99	30.26
<i>By types of activity:</i>				
Exploration and production	10.83	8.85	8.07	10.07
Oil processing and petrochemicals	8.27	10.13	10.05	8.88
Electrical energy sector, including	12.07	11.80	11.66	11.11
• LLC LUKOIL-ENERGOSETI ³	1.09	1.49	1.42	1.29
Transportation and sales	0.09	0.09	0.09	0.09
1.2. Foreign entities	6.73	6.71	6.45	6.96
<i>By types of activity:</i>				
Exploration and production	NA	0.24	0.37	0.33
Oil processing and petrochemicals	6.73	6.47	6.08	6.63

¹ The reporting boundaries include five power generation entities and one equipment operating company (LLC LUKOIL-ENERGOSETI), seven oil and gas producing entities, four oil refineries, one gas processing plant, two petrochemical plants, four oil product supply entities and one air bunkering entity, as well as four transportation entities.

² HSB Solomon Associated LLC (Solomon, <https://www.solomononline.com/>).

³ LLC LUKOIL-ENERGOSETI is a specialized service company that carries out activities not only in the transmission of electric energy, but also in the operation and repair of electric power equipment; maintenance of facilities for the production and transport of thermal energy, water supply and sanitation.

Indicators	2016 (baseline)	2017	2018	2019
2. Geography				
Russia	31.29	31.14	29.99	30.26
EU countries	6.73	6.47	6.08	6.63
Central Asia	NA	0.24	0.37	0.33
Share of emissions accounted for by countries where the regulation of GHG emissions has been implemented (Romania, Bulgaria, Italy), %	18	17	17	18

3. GHG composition (Russian entities)

Carbon dioxide, million tonnes of CO ₂ E	29.85	29.87	29.02	29.48
Methane, million tonnes of CO ₂ E	1.44	1.27	0.97	0.78
Share of methane, %	4.8	4.2	3.2	2.6
Other GHGs	0	0	0	0

4. Specific GHG emissions

4.1. Specific GHG emissions in Russia

Exploration and production, tonnes of CO ₂ E / tonne of oil equivalent in produced hydrocarbons	0.108	0.088	0.079	0.099
Processing, tonnes of CO ₂ E / tonne of processed raw materials	0.173	0.209	0.204	0.183
Petrochemicals, tonnes of CO ₂ E / tonne of processed raw materials	0.352	0.370	0.322	0.301
Electrical energy sector ¹ (tonnes of CO ₂ E / MWh of generated electrical and heat energy)	0.339	0.332	0.326	0.335

4.2 Specific GHG emissions abroad

Exploration and production, tonnes of CO ₂ E / tonne of oil equivalent in produced hydrocarbons	NA	0.025	0.024	0.020
Processing, tonnes of CO ₂ E / tonne of processed raw materials	NA	0.339	0.319	0.333

5. Specific methane emissions in Russia, tonnes of CO₂E/tonne of oil equivalent in produced hydrocarbons

	0.015	0.013	0.009	0.008
6. Total energy consumption (purchased and internally generated), million GJ	NA	497.5	489.3	487.5
7. Flaring emissions, million tonnes of CO₂E	4.64	3.54	2.21	2.52

Notes. (1) GHG emissions by LUKOIL Group's Russian entities were calculated in accordance with the calculation methodology prescribed by the Ministry of Natural Resources of the Russian Federation². Emissions by LUKOIL Group's foreign entities were calculated in accordance with the national methodologies of the countries of operation. The indicator "Volume of direct GHG emissions" was checked as a part of the audit of the present Report (auditor – JSC KPMG). (2) The value presented in the "Share of emissions accounted for by countries where the regulation of greenhouse emissions has been implemented" line item is calculated as the ratio of GHG emissions released by European oil refineries (PETROTEL-LUKOIL S.A., LUKOIL Neftochim Burgas AD, ISAB S.r.l.) to the total GHG emissions released by LUKOIL Group. Information on LUKOIL Uzbekistan Operating Company LLC is not taken into account when calculating the above value, as no regulation of GHG emissions has been implemented in Uzbekistan at a national level. (3) Fluctuations in specific indicators for oil refining and petrochemical entities are due to changes in the production volumes of end products. (4) The figures for direct greenhouse gas emissions for 2016 are presented without taking into account data for LUKOIL Uzbekistan Operating Company LLC; for the period 2017-2019 boundaries are unified.

¹ The indicator excludes LLC LUKOIL-ENERGOSETI (due to the specifics of the activity and the inability to bring the specific indicator to a single denominator) and LLC LUKOIL-Ekoenergo (due to the «zero» volume of direct greenhouse gas emissions).

² Order No. 300 of the Ministry of Natural Resources of the Russian Federation dated 30 June 2015 (registered with the Ministry of Justice of the Russian Federation as No. 40098 on 15 December 2015) "On Approving Methodological Instructions and Guidelines for the Quantitative Determination of the Volume of Greenhouse Gas Emissions by Organizations Engaged in Business and Other Activities in the Russian Federation."

EUROPEAN OIL REFINERIES REDUCING GHG EMISSIONS

LUKOIL has three oil refining plants in Europe (in Italy, Bulgaria and Romania), one joint venture with Total in the Netherlands (Zeeland Refinery), and a number of medium-sized plants engaged in the lube oil refining and blending business. In line with the EU policy of reducing emission allowances for manufacturing plants, LUKOIL performs comprehensive assessments, including in terms of CO₂ emission levels, when designing high-profile investment projects.

- A project on the replacement of afterburners at a sulfur recovery unit was launched at an Italian oil refinery, and a project aimed at improving energy efficiency of the IGCC unit is also under consideration. Both projects will facilitate CO₂ emissions reduction. A methanol production project is under consideration, the realization of which will facilitate the reduction of GHG emissions by about 600 thousand tonnes of CO₂-E, according to preliminary estimates.
- Potential “green hydrogen” production at a Bulgarian oil refinery and CO₂ capture prospects at a Romanian oil refinery are now being analyzed.

In the Netherlands, even stronger plans have been set at the national level:

 - to reduce by 2030 CO₂ emissions by 49% of the total GHG emissions (of the 1990 level);
 - to reduce CO₂ emissions in the industry by 35% (of the 2016 level).
- Taking into account preemptive CO₂ emissions reduction plans and appreciation of emission allowances, technological CO₂ capture and utilization, “green hydrogen” production and low-grade heat utilization solutions are being developed. The estimated contribution from this program to CO₂ emissions reduction by 2030 is expected to reach 600 thousand tonnes of CO₂-E. This know-how may also be used and replicated at other entities of the Company in the EU.

ENERGY CONSERVATION

KEY CHANGES AND RESULTS IN THE REPORTING YEAR

ENERGY CONSUMPTION FOR PRODUCTION PURPOSES IS REDUCED ON AVERAGE BY 1% PER YEAR FOR THE PERIOD 2017-2019	PILOT PROJECTS FOR THE CONSTRUCTION OF DIGITAL SUBSTATIONS ARE BEING IMPLEMENTED	THE ENERGY INTENSITY INDEX (EII) REDUCED BY 3.5 AS COMPARED TO 2014¹
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MANAGEMENT SYSTEM

ELEMENTS OF THE MANAGEMENT SYSTEM	DESCRIPTION	CORPORATE DOCUMENTS
GOALS	The strategic goals and key activities to improve the energy efficiency in each business segment were determined	LUKOIL Group’s Technical Policy on Energy Efficiency was approved by the Management Committee of OJSC LUKOIL on 26 March 2012
PRIORITIES/STANDARDS	The composition of process-related indicators, fuel consumption rates, etc., were formalized	Seven corporate STO 1.20 standards
KEY PERFORMANCE INDICATORS	Specific electric energy consumption per tonne of fluid produced (in the Exploration and Production segment). The Solomon Energy Intensity Index (EII). Energy intensity per tonne of basic raw material for entities in Petrochemicals business-sector Delivery of the approved energy conservation program ¹	The KPI regulations were approved by the Management Committee of PJSC LUKOIL on 16 September 2019
CERTIFICATION OF THE MANAGEMENT SYSTEM	The Russian entities of LUKOIL Group implemented the ISO 50001:2011 compliant energy management system	As of 31 December 2019, 25 entities possessed compliance certificates covering 68% of the total LUKOIL Group headcount
TARGETED PROGRAMS, PROJECTS AND INITIATIVES	Energy Conservation Program of LUKOIL Group Entities for 2019–2021 in Russia ² . Energy audits performance by LLC LUKOIL-Nizhegorodniinefteproekt of the entities in the Exploration and Production, and Refining, Marketing and Distribution segments	STO LUKOIL 1.20.2-2017 “Energy Conservation. Energy Conservation and Energy Efficiency Improvement Program for LUKOIL Group Entities. General Requirements to Development and Execution” (introduced by Order of PJSC LUKOIL of 20 November 2017 No. 184)
FURTHER INFORMATION	The examination of investment projects covers the evaluation of energy efficiency of business plans and related activities. The findings are considered in the general assessment of the project’s economic performance	

¹. Since 2014, the list of organizations covered by the study has changed; the boundaries of the study, starting in 2014, did not change.

¹. The KPI relates to the Exploration and Production in Russia, Oil Product Supply in Russia, Transportation in Russia and Power business sectors, as well as to the following entities belonging to the Refining, Marketing and Distribution business segment: LLC LUKOIL-Trans, transshipment facilities and LLC LUKOIL-AERO.

². The energy conservation program covers a 3-year period and is revised and approved by management of PJSC LUKOIL on an annual basis. The program for 2019-2021 was approved on 31 May 2018. During the previous reporting period, the program for 2018-2020 was in effect.

OUR GOALS



WE VIEW ENERGY EFFICIENCY IMPROVEMENT AS ONE OF THE KEY FACTORS IMPACTING THE ENERGY INTENSITY OF PRODUCTS AND LUKOIL'S ABILITY TO ADAPT TO GLOBAL CLIMATE CHANGE. RATIONAL USE OF ENERGY RESOURCES ENABLES THE REDUCTION OF GHG EMISSIONS. ENERGY EFFICIENCY IMPROVEMENT PLANS WILL BECOME AN INTEGRAL PART OF THE CLIMATE CHANGE STRATEGY AND WILL BE PRESENTED IN THE STRATEGIC DEVELOPMENT PROGRAM.



OUR GOALS



securing the efficiency of operating procedures and the functioning of process equipment across LUKOIL Group



securing the effective use of fuel and energy resources across LUKOIL Group (electricity and heat, as well as boiler and furnace fuels)



effective development and upgrade of energy assets of LUKOIL Group



WE SEE THE POTENTIAL for further energy efficiency improvement through the implementation of the following measures:



continuous **improvement and performance optimization** of the energy efficiency management system



integration of innovative energy-efficient technologies and equipment across LUKOIL Group entities



use of the demand management mechanism of LUKOIL Group entities, which implies re-distribution of electricity consumption relative to peak demand and allows for the elimination of additional electricity output



securing the maximum return on LUKOIL Group entities' investments in the long term through management of energy supply, conservation and efficiency management

MANAGEMENT SYSTEM CHANGES

Taking account of external environment changes and the introduction of many new technical solutions, in 2019 it was resolved to update the Technical Policy. The new version is expected to be completed in 2020.

As part of preparing for the re-certification of energy management systems of LUKOIL Group entities for compliance with a new version of the international standard ISO 50000:2018 "Energy Management

System - Requirements with Guidance for Use," five corporate standards were amended¹. The schedule of certifying LUKOIL Group entities according to this standard was approved.

The Set of KPIs was supplemented with a new indicator - "Delivery of the Approved Energy Conservation Program," with reporting to be submitted starting in 2020. This indicator heightens the interest of senior

executives in improving energy efficiency and energy conservation.

Further energy cost optimization plans include implementation of projects aimed at increasing the cost effectiveness and reliability of production facilities of LUKOIL Group entities. Significant new energy facilities are expected to be put into operation at fields in the Komi Republic; and two digital substations are being built in the Perm Territory.

ENERGY CONSUMPTION STRUCTURE

Oil and gas production companies account for the biggest share of energy consumption for production purposes across LUKOIL Group entities. Heat is primarily consumed by oil and gas producers, oil and gas refineries and petrochemical plants. Fuels are basically consumed by oil refineries, petrochemical plants and power providers.

Russian heat and power entities of LUKOIL supply electricity and heat to local communities and industrial enterprises in the south of Russia.

The oil refining complex ISAB in Italy operates an energy park composed of two blocks of combined cycle plants. In addition to natural gas, the energy park makes use of synthesis gas as fuel. Synthesis gas is produced by gasification facilities from asphalt generated as a by-product from deep oil refining. Electricity produced is mainly supplied to external consumers.

The oil refinery in Romania operates an energy park composed of a power boiler with the capacity of 185 MW and a turbogenerator with the capacity

of 30 MW. The power boiler is made using the circulating fluidized bed technology that is the most advanced technology for solid fuel-fired boilers. Oil coke as a by-product of deep oil refining is used as a fuel. The power produced is primarily consumed for oil refinery process needs.

TARGETED PROGRAM

Russian entities run the Energy Conservation Program of LUKOIL Group entities aimed at improving the energy efficiency of power and fuel and at loss reduction. The program covers activities carried out in entities of each business sector. A dedicated group of projects of the highest energy efficiency potential is highlighted. Such projects are included in roadmaps. For example, 76 highly effective projects are scheduled in 2020-2022 focused only on refineries.

In 2019, program performance is achieved primarily by the following activities:

- For entities involved in production, the key energy conservation activities include the replacement of asynchronous motors with magnet motors (PMSM), making use of electric submersible pumps as drives. Pumps of the system which maintain the formation pressure are also being upgraded.



In 2019, 3,885 units of PMSMs were integrated. This initiative is implemented in order to enhance the energy efficiency of the operation of the mechanized well stock and as part of the strategy of replacing asynchronous motors with PMSMs across oil and gas production companies of LUKOIL Group. As estimated by the Company, the delivery of this strategy will reduce electricity costs of the mechanized well stock.

¹ STO LUKOIL 1.20.1-2019 "Energy Conservation. Energy Resources Accounting System. General Provisions and Requirements for Equipping Production Facilities of LUKOIL Group Entities"; STO LUKOIL 1.20.3-2019 "Energy Conservation. Energy Audits of LUKOIL Group Entities. Methodology"; STO LUKOIL 1.20.4-2019 "Energy Conservation. Energy Efficiency. Constitution of Indicators for Entities, Processes, Structures and Production Facilities"; STO LUKOIL 1.20.5-2019 "Energy Conservation. Rates of Fuel Consumption, Heat and Power for Typical Processes and Production Facilities of LUKOIL Group Entities" and STO LUKOIL 1.20.6-2019 "Energy Conservation. Energy Management System of LUKOIL Group Entities. General Provisions and Regulated Facilities."

- Refineries carried out 132 activities intended to improve energy consumption and retrofitting.
- Power plants replace and upgrade their process equipment in order to increase the efficiency factor and shift heat loads from inefficient boiler stations which will subsequently be closed.

A good example is the project of decommissioning inefficient boiler stations and shifting heat loads to the source of combined heat and electricity

generation – at the Astrakhanskaya CHPP. Implementing this project will allow reduction in the volumes of burning non-renewable types of fuel by 7 million cubic meters of natural gas per year.

RESULTS

Over the last three years, energy consumption for production purposes was reduced thanks to the completion of energy conservation activities.

The reporting boundaries cover entities of all business segments in Russia and abroad that involve energy consumption for production purposes. The oil refinery in Netherlands is excluded from these boundaries.

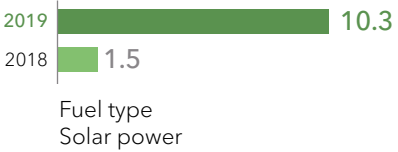
In general, the dynamics of power consumption for production purposes are accounted for by several factors. For oil and gas production entities, the construction of our own generating facilities allows for reducing purchases

Energy consumption for production purposes of LUKOIL Group entities from non-renewable sources and procurement, million GJ

	2017	2018	2019
Total energy consumption for production purposes, including:	497.5	489.3	487.5
• purchased electric power for production purposes	64.1	61.9	58.7
• purchased heat power for production purposes	35.7	19.9	17.4
• boiler and furnace fuels consumption for production purposes	520.1	537.9	529.6
power sales and supply, including:			
• electricity	75.1	73.9	66.7
• heat	47.3	56.5	51.5

Note. (1) Power consumption for production purposes by LUKOIL Group entities = Electricity and heat purchased for production purposes + Consumption of boiler and furnace fuel – Quantity of electricity and heat supplied to third-party consumers, as well as residential electricity/heat consumption. (2) The 2017–2018 data regarding power consumption for production purposes is different from the Sustainability Report for 2018 due to changes to the reporting boundaries, in particular, the addition of the Power Generation business sector to the reporting boundaries. Moreover, after publishing the 2018 Report, values of fuel and energy resources consumption for production purposes of LLC LUKOIL-Nizhnevolzhskneft for 2018 were amended. (3) The method to calculate indicators was improved: all inputs and estimates were converted into GJ. In this regard, the 2017–2019 data was re-calculated. When converting data, the following factors under GOST R 51750-2001 were used: 1 thousand kWh = 3.6 GJ, 1 Gcal = 4.19 GJ, 1 tonne of oil equivalent = 29.3 GJ).

Renewable energy (supporting generation) consumption for production purposes, million kWh



Note. (1) The 2018 data refers to LUKOIL Neftochim Burgas AD; the 2019 data – to LUKOIL Neftochim Burgas AD and PETROTEL-LUKOIL S.A. (starting from April 2019). (2) An increased consumption of power in 2019 was driven by the reorganization resulting in the transfer of the 9 MW solar power plant from S.C. LUKOIL ENERGY & GAS ROMANIA S.R.L. to PETROTEL-LUKOIL S.A. Starting from Q2 2019, this solar power plant supplies electricity for the operational needs of the refineries.

of power – notwithstanding an increased extraction of hard-to-recover reserves (HTR reserves) in the West Siberia and high-viscosity crude oil in the Komi Republic (which requires more heat), as well as a rise in water cut of wells in traditional production regions of West Siberia (which increases electricity consumption required to lift raw materials). In 2019, the specific electricity consumption indicator of Russian oil and gas production companies was 20.5 kWh per tonne of fluid produced, which is lower than the 2017–2018 indicator (20.6 kWh per tonne of fluid produced).

At Russian and foreign refineries, energy efficiency activities result in a considerable improvement of power consumption indicators: EII decreased by 3.5 percentage points against the 2014 level.

The Solomon EII¹ is used to evaluate the level of energy efficiency of refineries. Solomon produces global surveys of refineries fuel and lube profile every two years (in even-numbered years), with the most recent one held in 2019 for 2018. In uneven-numbered years, LUKOIL performs its internal monitoring of key indices (including as part of setting and checking compliance with the efficiency factor); however, Solomon experts do not verify such results. The Report shows indicator dynamics only based on verified survey data.

EII is used for long-term planning and as the efficiency factor for the medium term (three-year plans for the development of corporate sectoral development programs). This indicator is also monitored on a quarterly basis. At the time of this Report,

EII benchmarks for the sectoral development program for 2018–2027 were in effect.

In physical terms, the power saved is a significant resource for improving production performance.

Dynamics of Solomon EII as compared to 2014, %



Power savings resulting from the implementation of the Energy Conservation Program of LUKOIL Group entities in Russia, million GJ

Specific power consumption at the refinery, GJ / tonne of manufactured products

	2017	2018	2019
Total for LUKOIL Group, including:	3.6	3.7	3.5
• Russian entities	3.7	3.7	3.4
• Foreign entities	3.3	3.5	3.5

Notes. (1) Data for Russian plants is displayed subject to the volume of oil products supplied from other Group refineries in Russia for further processing. (2) Data is displayed subject to gas processing products (LLC LUKOIL-Permnefteorgsintez) and petrochemical products (LUKOIL Neftochim Burgas AD and ISAB S.r.l.). (3) Data on mini-refineries is not included in the calculation of indicators on specific energy consumption at refineries.

Total for 2017–2019



■ Electricity
■ Heat
■ Boiler and furnace fuel

DIGITAL PROJECTS

The application of digital technologies in the power sector opens up prospects of an extension in equipment life, as well as better use of fuel and energy resources thanks to flexible management

and improved forecasting. Expected effects include improved reliability and safety of the power infrastructure, reduced injury rates and decreased power grid losses.

In 2020, LUKOIL Group expects to put into operation its first digital Chashkino substation with a rated transformer capacity of 32 MVA to service oil production facilities.

¹ The EII index is calculated pursuant to the HSB Solomon Associated LLC methodology with the use of its own factors.

RENEWABLE ENERGY SOURCES

KEY CHANGES AND RESULTS IN THE REPORTING YEAR



THE SHARE OF ELECTRIC POWER GENERATED FROM RENEWABLE SOURCES (RES) AMOUNTED TO 6% OF TOTAL COMMERCIAL GENERATION.



THE COMPANY DECIDED TO CONSTRUCT A SECOND SPP AT THE VOLGOGRAD REFINERY.

The Company's objective in the field of renewable energy is to increase the competitiveness of LUKOIL Group through the achievement of sustainable development goals, of which implementation of renewable energy projects for the production of green energy is an integral part.

The key renewable energy tasks include:

- implementation of commercial RES projects, including with the involvement of government support¹;
- reduction/prevention of GHG emissions; and
- synergy from the construction of RES facilities at existing oil and gas production plants and refineries.

Projects based on wind and solar plants are implemented to supply "clean" electricity to external consumers. A small portion of energy is used by LUKOIL Group entities to generate heat based on solar collectors and to produce electric power based on photoelectric modules.

In 2019, a significant investment project for the reconstruction of the Belorechenskaya HPP (Krasnodar

Territory) was completed. The 48 MW plant uses a derivative scheme based on the difference in elevation between the Belaya and Pshish rivers. As part of the project, two hydroelectric units were fully replaced, and the rated capacity of each was increased from 16 to 24 MW. As a result, the service life of the hydropower plant was extended by 40 years, and its reliability and environmental safety were enhanced. The efficiency of using the water energy was increased due to the use of cutting-edge technologies. In addition, comprehensive measures to upgrade almost all auxiliary systems were taken. After the reconstruction, the net supply of environmentally friendly electric power at the plant will increase by almost 80% and constitute about 260 million kWh per year, which will prevent emissions of at least 130 thousand tonnes of CO₂E per year.

We intend to continue implementing "green" power projects. In the reporting year, the Company was developing prospective plans of implementing RES projects to be reflected in the Strategic Program of LUKOIL Group, as well as projects for the construction of SPP at the sites of the Volgograd Refinery and Saratov plant. The top-priority

project is the construction of Volgograd SPP-2 with the capacity of 20 MW. The construction of the facility is expected to receive state support for generation by renewable sources (RES CSA).

We expect to perform FEED activities for the construction of a wind power plant with the capacity of 50 MW in the vicinity of the Tsimlyanskaya HPP (Rostov region), including wind monitoring, selection of sites and capacity supply options. Another proposed investment pattern is the upgrade and efficiency improvement of hydroelectric assets. Options of advancing the hydroelectric cluster in the vicinity of the Krasnopolyanskaya HPP are being examined, including projects to reconstruct a small HPP on the Beshenka river (up to 2MW) and build the Krasnopolyanskaya HPP-2 (up to 24 MW).

In order to develop renewable energy in Russia and provide the industry with qualified personnel, with the assistance of LUKOIL, the basic department "Renewable Energy Sources" was created at the Gubkin Russian State University of Oil and Gas.

Total volume and share of electric power generated from renewable sources across LUKOIL Group

	2017	2018	2019
Total electric power generation from renewable sources (commercial and supporting generation), million kWh, including:	1,053	1,365	1,110
• in Russia	812	1,161	880
• abroad	241	204	230
Total commercial electric power generation from renewable sources, million kWh, including:	1,053	1,365	1,100
• wind power	228	192	218
• solar power	12	17	14
• hydroelectric power	813	1,156	868
Total electric power produced by commercial generating facilities of LUKOIL Group, million kWh	20,189	19,919	18,307
Share of commercial electric power generation from renewable sources in total electric power produced by commercial generating facilities of LUKOIL Group, %	5.2	6.9	6.0

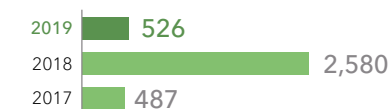
Note. Dynamics of electric power generation from RES indicators is conditioned upon changes to environmental conditions (water content of rivers, number of sunny/windy days, and other factors.), as well as upon HPP shutdowns for repair/reconstruction.

Share of income from sales of electric power from renewable sources, %



Note. The "share of income" indicator was determined by the correlation between income gained from sales of electric power from renewable sources and the total income from sales of electric power produced by commercial generating facilities of LUKOIL Group.

Investments in RES advancement, RUB million



Note. The investment details refer to LLC LUKOIL-Ekoenergo and LLC LUKOIL-Volgogradenergo. Increased investments in 2018 were driven by attributing the costs of acquiring a solar power plant for the Volgograd Refinery to the reporting year and by the rise in expenses on the reconstruction of the Belorechenskaya HPP.



In 2013–2015, the state system for incentivizing the construction of RES power plants was formalized and put into operation in Russia. Pursuant to Federal Law No. 35-FZ on the Electric Power Sector, the key instrument to support RES projects in the Russian Federation is the conclusion of long-term 15-year electricity and capacity supply agreements providing for preferential rates. The base rate of return for investors was established (12% for the reporting year).

The rules for supporting RES projects at energy retail and wholesale markets vary. The wholesale market support system is the key driver for enhancing the renewable energy sector in Russia. Projects of wind and solar power plants with the capacity of over 5 MW, as well as small hydroelectric plants of up to 25 MW are selected on an annual basis. The key selection criterion is the minimum amount of full CAPEX. After the selection, a capacity supply agreement is concluded with the investor. The generating RES facility shall supply all electricity produced to the wholesale electricity and capacity market of Russia at market prices. LUKOIL is a participant in this program.

¹. Capacity supply agreement for qualified generating facilities based on renewable energy sources (RES CSA).

REDUCTION OF EMISSIONS

At this stage, the key contribution to the reduction of GHG emissions is through the implementation of projects for the efficient use of APG at oil and gas producers in Russia.



OUR GOAL IS TO FURTHER INCREASE THE APG USE BY REDUCING FLARING EMISSIONS.

In order to reduce APG flaring, Russian entities have been implementing a program to expand efficient use since 2003¹, covering the activities for the construction of new facilities and the reconstruction of older facilities for APG preparation, transportation and processing.

APG is used for injection into formations to maintain formation pressure and to generate heat and electricity for consumption by oil and gas producers, as well as delivered to gas refineries and supplied to gas distribution systems of other entities.

The construction and reconstruction of facilities allow increasing the APG use as a raw material for power and petrochemical plants and as a product supplied to external consumers. The selection of economically viable APG use options depends upon the conditions of specific fields, the composition of raw materials, availability of the gas transportation

and processing infrastructure, as well as upon the distance to target markets. In general, deep APG processing is considered to be most cost-effective for sufficient production volumes.

In 2019, nine projects for the construction and reconstruction of facilities for efficient APG use were completed in the Perm Territory, the Komi Republic, the Khanty-Mansi Autonomous Area – Yugra and in the North Caspian. The summary effect from APG flaring reduction activities made up 27.2 million cubic meters.

LUKOIL was the first Russian oil company to join the World Bank's initiative for zero routine APG flaring by 2030 (announced in 2015), which combines the efforts of governments, oil companies and public organization to increase APG useful life. The initiative covers two projects in the Perm Territory and the Khanty-Mansi Autonomous Area – Yugra entailing expected reduction of GHG emissions of about 105 thousand tonnes of CO₂E by 2022.

The Perm Territory is implementing an investment project for the construction of a system to collect and transport APG from the Zhilinskoye, Belskoye and Rostovitskoye fields. In 2019, construction and installation work was performed at the following facilities:

- Zhilinskoye-Chashkino gas compressor station (GCS) gas pipeline, a receiving separator at the Chashkino GCS;
- Chashkinskaya gas turbine electric power station (GTEPS) with the capacity of 16 MW (4x4 MW), a 6 kW distribution substation, a block gas preparation unit and a booster pump station;
- 6 kW cable line to connect the 16 MW EGTS to the 110/35/6 kW Chashkino substation and electricity supply to the grid;



IN 2019, THE LEVEL OF THE APG USEFUL LIFE ACROSS LUKOIL GROUP WAS 97.6% SINCE 2016, THIS INDICATOR HAS GROWN BY 5.5 PERCENTAGE POINTS, WHICH IS A CONSIDERABLE ACHIEVEMENT FOR THE COMPANY.

- 35 kW air line connecting the 110/35/6 kW Chashkino substation with the 35/6 kW Zhilinskaya substation; and
- 35/6 kW Zhilinskaya substation.

During the preparation of this Report, startup operations were underway at those facilities. The commissioning of all facilities under this project is scheduled for 2020. As a result, the conditions for the efficient APG use of up to 47 million cubic meters per year will be created, and oil production facilities of OGPW-12 will be provided with their own electricity.

The Khanty-Mansi Autonomous Area – Yugra continued implementing the project for the reconstruction of the Povkhovskaya compressor station with an annual capacity of 600 million cubic meters: the tender

was held to source the contractor, and the agreement for supplying equipment (three compressor units) was concluded.

In general, the APG flaring volume has almost halved over the period

2017–2019. The indicator boundaries cover Russian exploration and production entities and foreign entities LUKARCO B.V. (in proportion to the share in the Tengiz project in Kazakhstan) and LUKOIL Overseas Kumkol B.V. (in proportion to the share

in the Kumkol project in Kazakhstan). In Egypt and Iraq, the entire volume of APG produced is contractually owned by the host countries.

	2017	2018	2019
Total volume of APG (hydrocarbon) flaring across LUKOIL Group, million cubic meters, including:	574.867	328.377	309.534
• Russian entities	555.327	312.925	298.933
• Foreign entities	19.540	15.452	10.601
Level of APG use across LUKOIL Group, %, including:	95.4	97.4	97.6
• Russian entities	95.2	97.3	97.5
• Foreign entities	97.6	98.1	98.9

Financing of APG use activities, RUB billion

	2017	2018	2019
Total across Russian LUKOIL Group entities	15.0	8.4	10.4

Note. The indicator covers the expenses on the construction and reconstruction of APG preparation, transportation and processing facilities, as well as heat and electric power generation facilities in Russia. The change of the indicator is accounted for the completion of the plan of key activities under the effective APG use program. For examples of such activities, see [the 2019 Annual Report, page 80](#).

REDUCED GAS LEAKS DURING REPAIRS

We strive to minimize natural gas leaks into the atmosphere caused by scheduled repairs and equipment failures at oil and gas producers.

In its efforts to identify such gas leaks, Russian LUKOIL Group entities are governed by regulations, federal

policies and procedures of the oil and gas sector, as well as by corporate standards¹.

Production facilities make use of mobile and standalone gas leak controls. In the follow-up of the audit and diagnostics, repair works

at gas transportation pipelines and gas collection and compression facilities (compressor stations) are scheduled. The audit and diagnostics of equipment are conducted on a regular basis.

¹. The program covers a 3-year period and is revised and approved by management of PJSC LUKOIL on an annual basis. The program for 2019–2021 was approved in 2018. During the previous reporting period, the program for 2018–2019 was in effect.

¹. FZ-116 on the Industrial Safety of Hazardous Production Facilities, FZ-22 on Making Amendments to the Federal Law on the Industrial Safety of Hazardous Production Facilities, STO LUKOIL 1.19.1-2012, Federal Policies and Procedures on the Rules for the Safe Operation of In-Field Pipelines.

SAFETY



Ravil Maganov
First Executive
Vice President
of PJSC LUKOIL

Q WHAT STEPS DOES THE COMPANY TAKE TO IMPROVE ITS SAFETY CULTURE?

A Ensuring safe working conditions and reducing injuries are the Company's key priorities. LUKOIL is implementing best practices in workplace safety, with the use of state-of-the-art technology. The Company's management places a great focus on these matters, with PJSC LUKOIL's representatives taking part in Safety Days and visits of the leaders. Direct engagement between management and employees helps improve motivation levels and raises the effectiveness of scheduled activities. We have begun to make active use of new types of equipment, such as the Mobile Inspector software and hardware system, and conduct video surveillance of hazardous facilities. The Safety Culture 4.0 mobile app has been developed by the Company's specialists.

We engage closely with our contractors' representatives and workers on these matters, and invite them to participate in our safety culture events and to share best practices. Respective incentives have been also introduced. We hope that these measures will help to further bolster the culture of safety at the Company's entities.



Alexander Podolsky
Head of the Information
Technology Department
of PJSC LUKOIL

Q HOW IS THE COMPANY DEALING WITH INFORMATION SECURITY CHALLENGES?

A The year 2019 was dedicated to setting up the Information Security (IS) Management Center, in order to safeguard the security level of information assets. We combined the processing of related events and responses to threats in a Corporate monitoring center.

We implement measures to mitigate sanction and other risks related to natural and man-made disasters, failures in engineering and telecommunications networks, and disruptions to external supply chains. The level of automation of security operations is improving.

The Single information space (SIP) – a complex of basic IT-services providing secure user operations in the corporate calculating network and protected access to corporate information resources – is developing.

SIP will enable a corporate user from any point of the globe to access the relocatable Digital workplace at any time. Lukoil Technology Services GmbH launched pilot project on its implementation in 2019. This allowed a prompt switch to remote working conditions taking into account IS requirements during the pandemic.

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SECURITY

KEY CHANGES AND RESULTS IN THE REPORTING YEAR



OVER THE PAST FIVE YEARS, A SUSTAINED TREND TOWARDS REDUCTION IN ON-THE-JOB INJURY RATES HAS BEEN SEEN AT BOTH LUKOIL GROUP ENTITIES AND CONTRACTOR ORGANIZATIONS.



THE LOST TIME ACCIDENT FREQUENCY RATE (LTAFR) REMAINED LOW.



NEW DIGITAL SAFETY CULTURE TOOLS WERE IMPLEMENTED.

INTEGRATED HSE MANAGEMENT SYSTEM

According to its corporate policy, LUKOIL is guided by principles aimed at creating safe working conditions, protecting the health of its employees and people in the regions where LUKOIL Group is present, as well as ensuring the efficient use of natural resources drawing on the best available technologies to preserve the environment.

The Integrated System of Management of Industrial, Fire, Radiation Safety, Emergency Prevention and Liquidation, the Protection of Civilians, Occupational Safety and Environmental Protection (hereinafter, the Integrated HSE Management System) has been in effect in LUKOIL Group for over 20 years. The Integrated HSE Management

System provides for the identification and management of risks and environmental issues, and a risk-oriented approach is applied to system planning, introduction of changes and implementation of cutting-edge technologies.



CONTEXT: OCCUPATIONAL AND INDUSTRIAL SAFETY

Occupational safety makes an important contribution to achieving Sustainable Development Goal 8 (promote inclusive and sustainable economic growth, employment and decent work for all), specifically, to fulfilling Target 8.8 (to protect labor rights and promote a safe and secure working environment for all workers).

According to ILO¹, over the last 100 years notable progress has been made globally in developing approaches to promote safe and secure working environments. The number of occupational accidents has declined and working environments improved owing to an ongoing identification and mitigation of work-related hazards.

Nevertheless, the challenge of creating safe and secure working environments for all remains important. According to an ILO Report², of 18 exposures measured between 1990 and 2016 only occupational exposure to asbestos had fallen while all other exposures increased by almost 7%. At the same time, the world of work is undergoing profound changes as a result of new technologies, changing demographics, and climate change, all of which create new challenges, as well as opportunities.

- The emergence of Artificial Intelligence (robotics), mobile devices and an opportunity to remotely manage production

processes removes workers from hazardous workplaces and reduces the likelihood of occupational illnesses. Still, injury risk may rise due to the specific features of human-AI interaction and human contact with the equipment used by robots. The risk of marked growth in cognitive overload is set to increase and can have significant effects on workers' psychological and social health.

- Automation is unlikely to replace most occupations entirely but instead will change the type and number of human tasks. Mobile (wearable) smart devices to improve workplace factors (to help monitor air quality and levels of workers fatigue, etc.) are increasingly used. However, those using such smart devices on a regular basis may lose the ability to autonomously make the right decisions on their own.
- In the long run, climate change will be a major driver transforming the world of work. It is estimated that a projected increase in global temperature of 1.5°C by the end of the twenty-first century, will cause total work time to decrease by 2 per cent by 2030 because it will be too hot to work. This will represent a loss of 72 million full-time jobs.

The Report stresses the need for active participation by governments, employers and workers, and all other stakeholders to seize the opportunities to create a safe and healthy future of work for all.

¹ Sources: Safety and health at the heart of the future of work, ILO, 2019.
² Ibid.



INTEGRATED HSE MANAGEMENT SYSTEM

ELEMENTS OF THE MANAGEMENT SYSTEM	DESCRIPTION	CORPORATE DOCUMENTS
 GOALS	The corporate policy establishes strategic goals, principles and obligations underlying the development of targeted programs and action plans integral to each program	LUKOIL Group Policy for Health, Safety, and Environmental Protection in the 21st Century; approved by a Decision of the Management Committee of PJSC LUKOIL dated 18 May 2018
 PRIORITIES/ STANDARDS	Corporate standards are applicable to all LUKOIL Group entities	15 corporate standards of STO 1.6 "HSE Management System" series (approved by Orders of PJSC LUKOIL No. 26 dated 11 February 2019, No. 86 dated 17 May 2019, No. 98 dated 11 June 2019, and No. 149 dated 26 August 2019)
 RISK MANAGEMENT	The Material HSE Risks Register and the Material Environmental Issues Register are updated on an annual basis. These Registers are analyzed by the HSE Committee of PJSC LUKOIL and approved by the First Executive Vice President of PJSC LUKOIL	STO LUKOIL 1.6.6 (Order of PJSC LUKOIL No. 133 dated 24 July 2019)
 COMMUNICATIONS WITH TRADE UNIONS	An ongoing contact is maintained with authorized occupational health and safety representatives and trade unions	Agreement between the employer and the Trade Union of PJSC "Oil Company 'LUKOIL'" for 2015–2020
 KEY PERFORMANCE INDICATORS	The composite indicator "Ensuring the Required HSE Levels at LUKOIL Group Entities" comprises those related to occupational injuries and accident rates, and also the key environmental impacts (pollutant emissions and discharges, waste management)	Regulations on Evaluating the Key Performance Indicator "Ensuring the Required HSE Levels at LUKOIL Group Entities," approved by Order of PJSC LUKOIL No. 196 dated 7 December 2017

ELEMENTS OF THE MANAGEMENT SYSTEM	DESCRIPTION	CORPORATE DOCUMENTS
 CERTIFICATION OF THE MANAGEMENT SYSTEM	The Integrated HSE Management System has been certified for compliance with the international standards ISO 14001 and OHSAS 18001 since 2001. Transition from OHSAS 18001 to ISO 45001-2018 is to start in 2020	As at 31 December 2019, certificates issued to 44 LUKOIL Group entities were in effect (covering 83% of total LUKOIL Group headcount)
 TARGETED PROGRAMS, PROJECTS AND INITIATIVES	The Program of Industrial Safety, Improvement of Labor Conditions and Occupational Safety, and Emergency Prevention and Liquidation of LUKOIL Group entities for 2019–2021 ¹ . The Environmental Safety Program for 2019–2021 ² .	The Programs were approved by Order of PJSC LUKOIL No. 28 dated 12 February 2019
 FURTHER INFORMATION	Corporate HSE Policy:  Management System  	

The Integrated HSE Management System is constantly improving it is revised annually to accommodate improvements which are developed based on external

audits and corporate control measures for compliance with the requirements of laws and corporate standards. The reporting preparation methodology

and stakeholder engagement practices are also being continually revised.

¹ The targeted program covers a 3-year period and is revised and approved by the management of PJSC LUKOIL on an annual basis. The Program for 2019–2021 was approved in 2018. During the previous reporting period, the program for 2018–2020 was in effect.

² Likewise.

Number of entities where audits of management systems were performed

	2017	2018	2019
External audits (for compliance with ISO 14001 and OHSAS 18001 standards)	20	19	20
Internal audits (for compliance with corporate requirements)	26	27	23

Notes. External audits are conducted in a three-year cycle in accordance with ISO committee recommendations. During this period, all LUKOIL Group entities that are to be certified and in which certification or supervisory audits are conducted are audited.

Measures implemented as part of the targeted programs are funded and form an integral part of the LUKOIL

Budget and the Investment Program. In addition, research projects are undertaken as part of the R&D

program. During 2019, total HSE costs amounted to 0.6% of the Group's consolidated revenue.

Financing of HSE targeted and investment programs at LUKOIL Group, RUB million

Programs	2017	2018	2019
Environmental Safety Program, including:	42,412	35,529	35,903
• capital costs	21,927	28,498	30,046
Industrial Safety Programs, Better Working Environment, Emergency Prevention and Response Program, including:	12,307	10,093	12,008
• costs to improve labor conditions and protect health, reduce occupational injury and occupational disease rates	6,789	4,946	5,281
• costs to reduce accident, incident, fire, and emergency risks	5,518	5,147	6,727
R&D, experimental engineering, and scientific technical works in Russia, including:	40	80	57
• environmental protection	23	58	34
• industrial safety	17	22	23
Total	54,759	45,702	47,968

Note. (1) When calculating costs at the foreign entities of LUKOIL Group, the 2018 currency exchange rate of USD 1 = RUB 63 and that for 2019 of USD 1 = RUB 65 was used. (2) Data on costs under the Environmental Safety Program for 2017 is only provided for Russian entities participating in the Program; data for 2018 and 2019 also includes costs at the foreign entities participating in the Program (15 entities in total, see [Appendix 8](#) "Reporting Boundaries"). (3) The structure of the Industrial Safety Program costs has been amended to reflect the updated Program for 2020-2022. The program for 2020-2022 was approved in 2020. More details of the Program will be provided in the 2020 Sustainability Report. (4) The change in R&D project costs is driven by funding schedules of approved projects

OUR GOALS

To ensure an advanced level of industrial safety and labor protection is an overriding priority for the Company¹.

This goal is included in the LUKOIL Group's Strategic Development Program. We are striving to comply with global best practices by achieving a low level of risks associated with accidents, incidents, fires, and emergencies at production facilities, labor injuries and occupational illnesses. An Integrated HSE Management System which functions sustainably is key to accomplishing this goal.



OUR STRATEGIC GOAL IS TO IMPROVE INDUSTRIAL SAFETY, REDUCE ON-THE-JOB INJURY RATES, ENSURE ACCIDENT-FREE OPERATION OF PRODUCTION FACILITIES, AND CONTINUOUSLY REDUCE OUR IMPACT ON THE ENVIRONMENT.

MANAGEMENT SYSTEM CHANGES

During 2019, we proceeded with preparations to adopt the new ISO 45001:2018 (in place of OHSAS 18001:2007 previously in effect). It contains up-to-date requirements for organizing the occupational health and industrial safety system providing for the expansion of the management perimeter. In particular, the standard prescribes that active engagement with employees and other stakeholders be put into practice, responsibility in contractor relationships be strengthened, and involvement of senior management be enhanced. A risk-oriented approach, preventive measures and actions, and a goal-setting exercise are of great importance.

In 2019, corporate standards used to govern contractor relationships, record and analyze incidents, occupational illnesses and workplace microtraumas, as well as the procedure for registering, warning about and investigating technogenic events were updated. Information about the new approaches is included on the agenda of LUKOIL's Safety Days.

During internal audits, entities are evaluated for compliance with the new requirements. Transition to the new standard is scheduled to begin in 2020.



In the lead-up to the integration of the new requirements into the Integrated HSE Management System, during 2019:



management and specialist training sessions were completed;



the Key Safety Rules binding on all employees at LUKOIL production facilities were put in place;



leadership and a heightened culture of safety improvement instruments were implemented;



new forms of engagement with employees and contractors were developed;



employee-oriented digital products for training and raising awareness were introduced.

¹ Road and vehicle safety aspects are viewed within the scope of personnel travel rules, as well as the rules of fuel trucking to petrol stations, and are factored in the corporate system of labor protection. The bulk of products is supplied to foreign and domestic customers through the transportation systems of Transneft and Russian Railways, as well as by marine and river tankers of third party carriers. LUKOIL does not possess its own rolling stock and tanker fleet.

LEADERSHIP AND SAFETY CULTURE

To enhance employee and management involvement, work on the implementation of leadership and employee engagement instruments was intensified in 2019. This approach helps to overcome resistance to change and tighten control over results.

Safety Days

The event is held on an annual basis¹ and serves as an effective tool for exchanging experience and HSE best practices identified not only at LUKOIL entities but also by its strategic contractors. At the Safety Day held in January 2020, which

was devoted to 2019 performance, the participants discussed both industrial and occupational safety issues and the increasingly stringent community requirements for oil companies in the area of sustainable development, climate change and environmental protection.

Leadership visits

As part of leadership visits, heads of business units of PJSC LUKOIL and LUKOIL Group entities evaluate the level of workplace safety at production facilities.

Digital technology

In addition to automation tools for routine procedures (electronic briefings and issuance of hazardous work permits), such tools as hazardous work video recording and a "Mobile Inspector" software and hardware system are being implemented at the Company's facilities. A new, original "Safety Culture 4.0" mobile service was also developed.

Promotion through focused measures

Taking into account the styles of human perception of information, three main promotion techniques are used: visualization, communication and motivation. Visualization tools (e.g., a "Leader in Safety" logo printed on documents, work interruption and self-check records, accident-free counters, etc.) remind workers of the need to ensure behavior-based workplace safety at all times. For communication development purposes, materials and various safety-related media clips are posted and made available on the internal portal. Employees and teams with notable safety excellence performance are awarded marks of distinction and themed contest prizes.

Notifications and training

An extensive use of digital products, such as visualization of all incident case studies based on investigation reports, is also planned in this area. An interactive "Culture of Safety" training calendar is scheduled to be placed in facility workshops and group premises. The calendar will be brought in step with our "Safety Culture 4.0" mobile app and a built-in augmented reality service to transform the calendar into an annual training and notification system on all current safety issues. This technology was already used in management trainings; in 2020, sets of training materials have been developed and an annual "Management Leadership" training program has been launched.

The widespread use of digital technologies in the organization of compulsory training for LUKOIL Group employees, including through the corporate distance learning system, allows for an optimization of costs and a more efficient distribution between compulsory education and training aimed at developing professional, managerial and leadership competencies.

"SAFETY CULTURE 4.0" MOBILE SERVICE



Today, the culture of safety cannot advance if modern technologies are not applied, for they simplify and accelerate employee training and awareness, on the one hand, and provide for an enhanced control over compliance with safety requirements and eliminate the human factor, where required, on the other.

Digital technologies (augmented reality and mobile apps to name but a few) hold great potential to influence human conscience and perception. Digital technologies are capable of changing human behavior at a far faster rate than traditional methods of persuading, thus reducing the human error factor in occupational injuries and accidents. Digital products cater to a wide range of workers and guarantee more solid performance. Owing to sharp visualization and a non-routine way of presenting information, they surprise and provoke interest, hold attention and ensure a higher level of mastery of material.

"Safety Culture 4.0" mobile service is a proprietary LUKOIL product that has already gained attention in the industry. Its concept is centered around a rapid integration of required data and knowledge into the work flow, including through the use of augmented reality. Using only a cellular phone, a worker may find a relevant document, get instructions on how to act in case of a non-routine

event or render aid to a colleague in case of a workplace incident, when every minute or even second counts. Instead of reading a long text, it would not take more than a rapid glance at the display to take action. An emergency response rate may not only help preserve one's health but may save lives as well.

All training services of this app are promptly updated in real time, all at the same time in all regions of the Company's operations. By virtue of a shared mobile app service, the procedure for organizing leadership visits and notifying employees of the results has been simplified. One more useful (or motivating) function of the app is the ability to count accident-free days in the entity a worker where is employed and the possibility of benchmarking the indicator with the entire business sector entities. The pilot implementation of the project was completed; its replication at all Group entities is scheduled for 2020.

Training performance

	2017	2018	2019
Amount of training on industrial safety and occupational health and safety for LUKOIL Group, person-courses	56,481	60,106	59,314
Industrial safety and occupational health and safety for LUKOIL Group - training costs ("Employee training and advanced vocational training"), RUB million	327.9	323.2	263.8

Notes. (1)The data includes actual information on in person and remote employee training. (2)The data on 2017-2019 training costs includes information on Russian entities, as well as on LUKOIL Uzbekistan Operating Company LLC and LUKOIL MID-EAST LIMITED.

Right to refuse life-threatening work

Employees have the right to refuse to perform their job duties if they consider it impossible to perform the work without endangering their lives or health. This right is enshrined in Clause 6.1.9 of the Agreement between the trade union and PJSC LUKOIL for 2015-2020 and the Key Rules of Safety when Staying at Facilities of LUKOIL Group Entities in accordance with STO LUKOIL "Leadership and Culture of Safety."

Employee involvement

Through authorized occupational health and safety representatives and joint committees (commissions) for occupational health and safety, employees can propose measures to be taken to further safety¹. In 2019, the first training for authorized occupational health and safety representatives as part of a "Leader in Safety" program was undertaken. We plan to continue this practice, with such training to be held at least once a year.

For more information on the technical labor inspection of the IATUO of PJSC LUKOIL see:



¹ Safety Days are held in each LUKOIL Group entity at least once every six months.

¹ This issue is regulated by Section 6 "Health, Safety, and Environment" of the Agreement between the employer and the Trade Union of Public Joint-Stock Company "Oil Company 'LUKOIL'" for 2015-2020.

OCCUPATIONAL SAFETY

The Company's key priority is the preservation of life and health of its employees, as well as employees

of contractor organizations working at LUKOIL facilities. Zero fatalities is one of the main criteria outlined

in the "Required HSE Levels" KPI used in the financial incentivization system.



In case of safety incidents, measures set forth by laws of the countries where we are present and corporate standards are taken at all LUKOIL Group entities, including:



real-time emergency warning of all injury incidents at the Company's facilities, including injuries suffered by contractor employees;



data logging in the "RISK-IS" corporate information system;



investigation, analysis of facts, circumstances and causes of workplace incidents.

Findings of investigations are communicated to LUKOIL Group entities and business units of PJSC LUKOIL, considered at the meetings of the HSE Committee at the Board of Directors of PJSC LUKOIL, and included as part of Safety Days program with trade unions and key contractor organizations participating in it.

Findings of incident analysis, including at contractor organizations, are incorporated into an annual report to the Management Committee of PJSC LUKOIL on the HSE situation and considered at meetings of the Board of Directors.

We regret to say that in 2019 the injury rate in Russia for LUKOIL employees increased on account of serious road accidents. There were four road traffic accidents that resulted in bodily injury or death, of which two were pile-up accidents. As a result, nine LUKOIL employees were injured and one employee killed in the car crash.

The second incident resulting in the death of our employee was an assault related to robbery at a fueling station in the Voronezh region. To reduce this risk in the future, a briefing for fueling stations personnel

on emergency procedures in case of danger to health or life was held; measures to enhance remote monitoring of fueling stations are being considered.

Analysis of causes for other incidents showed they were primarily related to employee exposures to machinery and moving armatures; falling from high elevations and sustaining electrical shocks at electric power plants.

All incidents in 2017-2019 involving LUKOIL regular employees were fully investigated. At the time of this Report

the investigation of a pile-up car accident on 3 December 2019 in LLC UralOil (the Perm Territory) was still in progress.

There were two incidents at foreign entities. At LUKOIL Romania S.R.L. a fuel station operator fell victim to third party criminal activity. At an Italian oil refinery, a worker sustained a leg injury. Following the investigation, the refinery service area was analyzed for compliance with safety requirements and appropriate measures were taken.

Indicators related to occupational injuries at LUKOIL Group

	2017	2018	2019
Lost time accident frequency rate (LTAFR)	0.20	0.20	0.19
Lost time injury frequency rate (LTIFR)	-	0.12	0.13
Rate of fatalities	-	0.01	0.01
Rate of high-consequence injuries (net of fatalities)	-	0.03	0.05
Rate of registered occupational injuries or damage to health	-	0.15	0.18

Notes. (1) The lower all indicators are the better. (2) The indicators (other than LTAFR) have been calculated since 2018. (3) The formulae used to calculate the indicators are provided in [Appendix 7](#) "Reference Information: Abbreviations, Definitions and Calculation Formulae."

Number of occupational accidents and employees injured in workplace accidents at LUKOIL Group entities

Indicator	2017	2018	2019
Total number of occupational accidents, including:	20	21	19
• fatal	4	1	2
• high-consequence work-related injuries	NA	5	8
• number of minor injuries	NA	15	9
• number of microtraumas ¹	NA	3	7
Number of employees injured in workplace accidents (total number of injuries), including:	22	23	25
• number of fatalities (FA)	4	1	2
• number of lost time injuries (traumas) (LTI)	18	22	23

Note. If during the reporting period an employee suffered more than one injury, each case is counted as a separate injury.

¹ The term "microtrauma" is used according to the GRI definition.



The key areas for action to reduce occupational injury rates and prevent accidents, counting those in 2019, include:



performance of scheduled measures as part of the OHS program;



providing workers with efficient modern means of individual and collective protection;



implementation of digital tools designed to prevent hazardous situations. For example, the video recording of high-risk work and complex change-over switchings for power generation specialists was organized, as well as a wider use of video briefings;



organization of training sessions to raise employee awareness and drill technical skills. Examples of the measures are as follows:



obligatory mass training sessions using a distance learning system to master occupational safety and first aid in the workplace, in accordance with current legal requirements,



development of an employee self-tutoring and certification service on occupational safety issues,



performance of tests on knowledge of the Key Rules of Safety and local regulatory acts,



specialized training sessions for those working at hazardous facilities,



simulator sessions and drills concerning actions in emergency events,



trainings aimed at improving skills required to operate sophisticated equipment, and other types of training.

INTERACTIONS WITH CONTRACTORS

We realize our responsibility towards stakeholders and society as a whole and encourage our business partners to adhere to the environmental and social performance principles of our Company. For example, our standard contracts include provisions obligating contractors to follow the provisions set forth in the LUKOIL Group Policy on industrial safety, occupational health and environmental safety in the 21st Century.

The Company regularly reviews contractors in terms of compliance with occupational health and industrial safety requirements throughout the term of the contract. Thus, in 2019, as part of corporate supervision and production control in Russian entities of LUKOIL Group, over 7 thousand audits were conducted. Employees of counterparties were held responsible for the violations committed, and penalties were applied. Contractors took measures to eliminate and prevent violations in a timely manner.

We bolster interaction and cooperation with our contractors at the Company's facilities concerning occupational safety issues. For example, the employees of the Company's suppliers and contractors are trained in occupational and industrial safety issues and participate in Safety Days. This helps us advance our goal of reducing the occupational injury rate:

- by improvement of working conditions and occupational safety at LUKOIL Group entities, and, as a result, reducing of the level of injury rate and occupational illnesses;



Control measures were introduced at various stages of cooperation with contractor organizations, including:



Pre-tender assessments;



Technical audits of employee preparedness to perform work at LUKOIL production facilities;



Inclusion of provisions of the corporate standard STO 1.6.5-2019 "Requirements for Contractor Organizations" into contracts;



Production controls.

- by reducing the risks of accidents, incidents, fires and emergencies at the facilities of LUKOIL Group entities.

The indicator "fatal accidents during the performance of contracting and subcontracting activities at the Group's facilities" is included in the comprehensive KPI "Ensuring the Required HSE Levels at LUKOIL Group Entities," which is taken into account in the motivation system.

Despite the measures we are taking, we have not yet succeeded in reducing the number of accidents year-on-year. The findings of our analysis

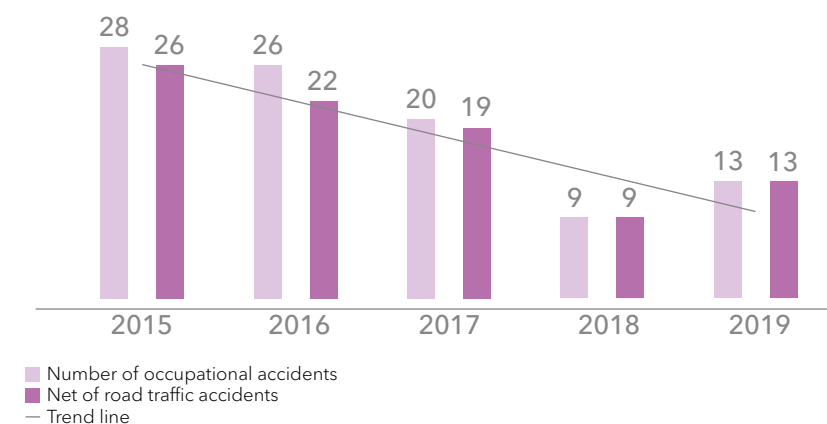
of the respective indicators for the last 5-year period are indicative of an upward general trend (See the chart below **on page 83**). This result has to a great extent been achieved through our efforts to regularly inform contractors of safe work performance rules at LUKOIL facilities, the Key Rules of Safety and other local documents. Representatives of the key contractor organizations are invited to regular events aimed at improving the culture of safety, including Safety Days. We are committed to proceeding with this work in future.

Indicators related to occupational injuries at contractor organizations in Russia and abroad

	2017	2018	2019
Total number of occupational accidents, including:	20	9	13
• fatal	7	1	6
• high-consequence work-related injuries	4	3	1
Number of employees injured in workplace accidents (total number of injuries), including:	25	9	16
• number of fatalities (FA)	10	1	7
• number of lost time injuries (LTI)	15	8	9

OCCUPATIONAL INJURIES AT CONTRACTOR (SUBCONTRACTOR) ORGANIZATIONS IN RUSSIA AND ABROAD

Dynamics of accidents among contractor organizations



All accidents at contractor organizations in 2019 were fully investigated, except for a group accident at LUKOIL-Komi (a fire at oil mine No. 1 on 24 November 2019); at the time of writing the Report the investigation was still ongoing. Information about the facts and circumstances and causes of accidents and preventive measures taken was communicated to LUKOIL employees and the representatives of contractor organizations.



The Safety Day agenda, dedicated to 2019 performance, had a particular focus on improving occupational safety at contractor and subcontractor organizations. Following discussions, Safety Day participants proposed the following solutions to improve the culture of safety:



to proceed with gathering up best practices of collaboration among LUKOIL entities and contractors and subcontractors, and to implement these practices across all LUKOIL Group entities (and issue related charters as part of the Knowledge Management Corporate System).



to organize interactive field trips to LUKOIL production facilities for contractor staff, so that they can best adapt to the specific working conditions.



to continue to hold competitions to identify the best contractor organization in order to integrate partners into the LUKOIL-wide OHS system. Introduce an incentive scheme among contractors to encourage the implementation of best safe work practices.



The proposals were included in the summary document of the Safety Day and will be implemented.



DIGITAL METHODS OF IMPROVING SAFETY AT OIL REFINING PLANTS



OIL REFINING PLANTS BECAME PLATFORMS FOR THE IMPLEMENTATION OF THE 2019-2021 DIGITAL REFINING DEVELOPMENT PROGRAM, WHICH COMPRISES **40 INITIATIVES** AND **19 PROJECTS**.

IN 2019 THE FOLLOWING PROJECTS WERE COMPLETED:

ENTITY	PROJECT	OUTCOME
OIL REFINERY IN ROMANIA	Mobile Inspector 	Most critical equipment monitored through walk-round checks with the use of instrumental control tools (vibrations, bearing temperature).
VOLGOGRAD OIL REFINERY	Digital video surveillance and intelligent video analysis system 	- Integrating the technological video surveillance system with a distributed processing facility control system; - implementing automatic algorithms of intelligent video data analysis for event identification purposes; - prompt and efficient automatic identification of non-routine events; - real-time distance monitoring of the condition of production equipment at the facilities.
OIL REFINERY PLANT IN BULGARIA	Monitoring and online diagnostic system 	- Reduced instrumentation and automated control system maintenance costs; - reduced equipment failures; - predictable repair times / needs; - reliable production management and protection.



THE FOLLOWING PILOT PROJECTS WERE PUT INTO OPERATIONAL TEST:

ENTITY	PROJECT	OUTCOME
VOLGOGRAD OIL REFINERY	Connected production 	Implementation of the Process Insight Reliability Advisor system, to improve a vacuum gas oil hydrocracking unit's operating reliability, production efficiency, and operational effectiveness.
PERM OIL REFINERY	Predictive analytics 	Improving the availability of technological equipment through the reduction of unplanned maintenance. Identifying signs of early equipment deterioration by detecting changes in all streaming signals, which accurately indicate the date/ time of a malfunction.
NIZHNY NOVGOROD OIL REFINERY, OIL REFINERY PLANT IN BULGARIA	APC+ enhanced management systems 	- Creating analogues of virtual analyzers, with enhanced accuracy and capability of operating without being readjusted over protracted periods. - Design of AI to predict future conditions of units. - Continued improvements to the unit optimization model in line with the target criteria set.

HEALTH IN THE WORKPLACE

We endeavor to minimize conditions that may harm the health of workers. Our overriding priority is to provide high-quality and state-of-the-art individual personal protection equipment (PPE) that reduces the impact of harmful and dangerous workplace factors. This PPE is provided under the respective corporate standard, and its amount and variety exceeds statutory requirements.

Thanks to a well-developed medical service system comprising voluntary medical insurance programs and options to receive medical attention at local employee health centers in the event of emergencies, a high level of employee health is successfully maintained, and new

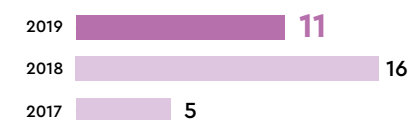
occupational illnesses are registered only very rarely. No occupational illnesses were identified in foreign entities of the Company.

We have embarked on a large-scale modernization of corporate medical treatment facilities, including renovations and building facilities in Usinsk, Budyonnovsk, and Urai, modeled on the new clinics in Kogalym and Kstovo. Additional health centers with medical assistants and pharmacy branches have been established onsite.

In 2019 cardio check-ups of risk groups by age were performed and mobile teams of cardio specialists checked employees working in remote areas.

The oil mine operated by LUKOIL-Komi has long had the most complex working environment. The overall trend in recent years has been towards an increase in occupational illness numbers, which is primarily due to the age structure of the workforce. All cases were identified during medical check-ups, with some diseases being caught early, which is testament to the efficacy of medical screening. Employees with suspected occupational illnesses have in-depth check-ups at in-patient clinics; such check-ups are performed free-of-charge and are financed through public contracts.

Number of LUKOIL-Komi workers with newly diagnosed occupational illnesses, people



Priority areas for taking measures to reduce the occupational illness rate at LUKOIL-Komi include:

- technical protection of workers from work-related exposure through the use of new technologies, equipment, and effective means of personal and collective protection (acoustic absorption equipment, protective hand equipment, etc.)
- employee timesheets for vibrating tool operations, with subsequent registrations in log books.

Occupational illness dynamics of Russian LUKOIL Group entities

	2017	2018	2019
Occupational disease rate (ODR)			
• per 1,000 workers	0.06	0.19	0.13
• per 1,000,000 man-hours	NA	0.11	0.08

- a medical program to prevent occupational illnesses and follow-up observations of workers in risk groups.
- in-depth check-ups of employees engaged in underground operations, as well as those who are frequently and chronically ill, by experts from leading Moscow healthcare institutions.
- evaluation of the quality of health check-ups.

As part of promoting the development of the Yaregskoye field, the use of small mine shafts where more favorable working conditions can be ensured is under consideration.

PIPELINE RELIABILITY AND EMERGENCY PREPAREDNESS

KEY CHANGES AND RESULTS IN THE REPORTING YEAR



THE SPECIFIC COEFFICIENT OF PIPELINE FAILURE REACHED THE MINIMUM VALUE FOR THE PERIOD 2016-2019

OF **0.081**
CASES PER 1 KM OF PIPELINES PER YEAR



THE SHARE OF CORROSION-RESISTANT PIPELINES (EXCLUDING INHIBITOR PROTECTION) ROSE

TO **30.4%**
(2016: 23.6%)



A RAPID REPAIR TECHNOLOGY FOR OFFSHORE PIPELINES WAS ACQUIRED AND TESTED SUCCESSFULLY

MANAGEMENT SYSTEM

ELEMENTS
OF THE MANAGEMENT SYSTEM

DESCRIPTION

DOCUMENTS



OBJECTIVES

The Company's policy related to improving the functional reliability of pipeline transport is governed by legal requirements and corporate standards.

Russia: Federal Law No. 116-FZ "On the Industrial Safety of Hazardous Production Facilities," "Rules for the Safe Operation of In-Field Pipelines" (approved by Rostekhnadzor Order No. 515 dated 30 November 2017); other federal regulations and rules on industrial safety

PRIORITIES/
STANDARDS

Our priority is to adopt an integrated approach to the safe operation of pipelines: inhibitor coating, the introduction of corrosion-resistant pipes, timely diagnostics, and the prompt elimination of detected defects.

Corporate regulations (STO LUKOIL 1.19.1-2012; 1.19.2-2013 and 1.19.3-2013)



INDICATORS

The pipeline failure rate for oilfield pipelines, number of failures per 1 km per year.

Resolution of the Network Group "Improvements to the Oilfield Pipe and Tubing Reliability Network Group" (hereinafter Network Group)

SYSTEM
IMPROVEMENT

The key source of expertise is provided by the activities of PJSC LUKOIL's Network Group, which forms part of the Corporate Knowledge Management System.

Regulations on the Knowledge Management System of the Exploration and Production business segment (approved by First Executive Vice President R. Maganov on 19 March 2014). The Network Group's annual work plan was approved



RESPONSIBILITY

The system covers all management levels, from senior management to specialized units at LUKOIL Group entities. Responsible individuals in this area also include the experts and the head of the Network Group.

The approved annual work plan of the Network Group as part of the Industrial Safety Program

TARGETED
PROGRAMS,
PROJECTS,
AND INITIATIVES

Every Russian oil and gas producer has an investment program "The renovation and technical re-equipment of pipeline transport facilities".

Annual and mid-term investment programs. The Integrated Program on the Improvement of Oilfield Pipeline Reliability, adopted by each entity of the Exploration and Production business segment

OUR GOALS

LUKOIL operates a well-developed field pipeline system, including the longest offshore pipeline system among Russian oil and gas companies (over 550 km in length). We consistently carry out work to mitigate pipeline failure risks, and have in place a well-run reliability management system for oilfield and mainline pipelines¹.

We are fully aware of the negative consequences that can arise as a result of pipeline disruption. To prevent potential disruptions to equipment integrity, we continuously monitor the condition of pipeline systems and use a number of methods to prevent intentional and unintentional damage caused by third parties, including modern leak detection systems, as well as the use of unmanned aerial vehicles to fly over pipeline routes.

Our goal: stabilization and reduction of accidents in pipeline transport². To prevent potential incidents, we apply an integrated approach, including the following activities:

- timely diagnostics, with a ranking of risks of detected anomalies and defects;
- applying corrosion inhibitor and electrochemical protection;
- introducing pipes with internal protective coatings and pipes made of innovative and alternative materials.

Technical diagnostics and corrosion monitoring are regularly performed as part of preventive measures. Based on the results of inspections, repair work is carried out, if necessary, and potentially hazardous areas are identified, for example, in mountainous areas at LUKOIL Uzbekistan Operating Company sites.

In order to prevent spills and to reduce environmental impacts, the Company prepares pipelines for the autumn-winter season and spring floods, LUKOIL Group oil and gas production companies annually develop and implement measures in advance. Such measures include an inspection of line shut-off valves and block valve stations, with more

frequent check-ups (inspections), especially in areas of potential flooding or water cut-off zones, as well as inspections and the preparation of tools to remedy emergency oil spills.

In the event of a pipeline failure, response tools are used to contain it quickly (the average response time after an event is detected is between four and six hours, depending on the distance and weather conditions).

Results

Owing to the active measures being taken, at the end of 2019 we see an improvement in all indicators characterizing the state of the LUKOIL pipeline system.

In 2019, the failure rate decreased in relation to 2018 by 12%. This dynamic was driven by the prompt replacement of pipe sections that were identified defective (all such sections are to be replaced) and a rise in the share of pipes with a longer service life. In 2019 the share of replaced pipelines was 2.4%.

- When replacing sections of pipelines, more than 60% of the pipes are delivered to facilities in an anti-corrosion coating. They have an extended service life and do not require frequent periodic repairs, which significantly reduces operating costs.
- In-line inspections of interfield pipelines have become more common, and provide highly reliable data and allow the residual life of pipelines to be assessed more accurately.
- The number of inspections of pipeline transport facilities and the number of maintenance personnel increased. Unmanned control and monitoring methods are used, including the use of devices with internal combustion engines, which can operate in the Far North.
- Efforts were stepped up to improve quality control in the area of supplied pipes: requirements for non-metallic inclusions in pipes

were developed; inspections of products, audits of manufacturers' plants (including unscheduled ones), and observations were performed; and recommendations on the implementation of control methods and techniques were made. If quality violations are repeated, the supplier is added to the register of bad-faith suppliers ('blacklist'), and is not permitted to take part in tender procedures.

- Continuous work is carried out to maintain a competitive environment among suppliers of tubular products with an internal protective coating: bypass experimental field tests of new types of protective coatings followed by issuing expert opinions on the conformity of the products to the technical requirements of PJSC LUKOIL



THE DYNAMICS OF REDUCING THE VOLUME OF OIL AND OIL PRODUCTS SPILLS, AS WELL AS THE FREQUENCY OF PIPELINE FAILURES IN 2017-2019 IS POSITIVE. IN 2019 NO SIGNIFICANT OIL AND FORMATION WATER SPILLS³ OCCURRED.

¹ The information in this section pertains to the Russian entities of LUKOIL Group.

² It was approved in the work plan of the Network Group "Improving the reliability of field and tubing" by PJSC LUKOIL dated January 25, 2019.

³ The definition of a significant spill is given in Appendix 7.

Reliability indicators of Russian pipeline system

	2017	2018	2019
Specific coefficient of pipeline failures ¹ failure/km/year	0.117	0.092	0.081
Share of corrosion-resistant pipelines, %	25.2	26.8	30.4
Volume of oil and oil products spilled in accidents, tonnes	220	32	16
Specific coefficient of spills (kg of spilled oil and oil products per thousand tonnes of extracted oil and gas condensate)	2.7	0.4	0.2

Note. A specific coefficient is calculated based on the volume of oil and gas condensate production in Russia (net of the share in related entities).

IMPROVEMENT STRATEGY

The network group continues to search for solutions with which the Company will be able to achieve its goals of improving the reliability of pipeline transport.

Alternative piping. We see the use of pipes made of alternative materials (non-metallic) with a standard service life of 30 to 50 years as a major potential area of improvement for pipeline sections exposed to corrosion. In 2019 the length of non-metallic pipes stood at 3,058 km. Bimetal pipes also have an extended service life and are of higher reliability, as they are made of high-strength steel grades.

Pilot tests of new pipes made of alternative materials are carried out at LUKOIL-Western Siberia and RITEK

facilities; and bypass (bench) tests of bimetal pipes are being conducted in the Komi Republic.

New technologies and equipment. In 2019 LUKOIL was the first company to successfully test the Russian technology “Beluga” in underwater repairs of offshore pipelines. We had been involved in developing this technology for three years. Now, if necessary, repairs can be performed quickly, without the need to halt product pumping.

Another innovation was the introduction of leak detection and unauthorized access systems. Self-operated pressure regulators are installed at vulnerable pipeline sections, preventing damage from dynamic internal shocks.

This solution significantly boosts the operational reliability of high-pressure water pipes and pipelines in a hostile environment. The equipment has already been delivered to the Komi Republic and to RITEK facilities, and it is planned to roll out its use as a best practice.

Pipe labeling. Company experts suggested the use of pipe labeling (a product labeled by the respective manufacturer). This will help in tracing products, including their reliability and quality indicators. An industry working group has been set up at RSPP to handle this issue.

EMERGENCY AND INCIDENT PREPAREDNESS

LUKOIL pays considerable attention to ensuring a high level of emergency preparedness. It fully complies with relevant laws of the Russian Federation and other countries where the Company operates. LUKOIL takes measures annually to maintain and improve the skills of emergency rescue units.

Plans are in place for all facilities that can pose potential sources of emergency situations, with a view to preventing and eliminating oil and petroleum product spills¹. Respective documents contain all the required information to facilitate rapid responses and effective interaction among those involved in rescue operations, specifically:

- potential emergency scenarios on site;
- the resources required to contain and eliminate an emergency, the steps required to involve professional emergency rescue units; system of interaction among rescue forces and use of resources;
- how to ensure a state of constant readiness for emergency containment and elimination;

- the organization of management, communications, and notifications in the event of an emergency;
- information exchange system among the people involved;
- priority actions to be taken when an emergency alert is received;
- measures to ensure public safety;
- the organization of procurement, engineering, and financial support for emergency management operations at a facility.

The priority areas of work in this area include establishing and developing our own emergency rescue units consisting of the most experienced staff at the facilities. 2,063 people made up five professional full-time emergency rescue units and 43 non-staff emergency rescue units in 2019. A necessary level of unit readiness is maintained by ensuring that they are equipped with modern technical resources and by improving skills related to rescue operations.

The most effective training activities are practical exercises and trainings, which help ensure a high level

of readiness among governing bodies and personnel, as well as technical readiness. Annual trainings at federal and regional levels are conducted, including to eliminate gas, water, and oil inflows as well as open blow-outs at oil and gas condensate fields. A special emphasis is placed on conducting trainings at LUKOIL marine and river terminals and oil production facilities.

In order to boost knowledge levels and professional skills and to build team spirit and raise the status of rescuers, a second professional skills contest was held in 2019 for employees from non-staff emergency rescue units of the Company. This event was part of the 10th Professional Excellence Competition of LUKOIL Group employees for the title Best in the Profession, and was held at the Corporate Training Center. Fourteen teams from oil and gas producing, refining, and transport entities of the Group took part.

Indicators of Russian LUKOIL Group entities’ preparedness for emergencies

	2017	2018	2019
Number of trainings conducted, including on:	193	178	200
• the elimination of an oil/oil product spill	109	91	117
Number of staff involved in trainings, people	6,640	5,810	6,692
Number of site drills	10,566	11,996	10,739
Number of staff involved in drills, people	75,649	88,300	97,852

¹ Pipeline failure means a failure of performance associated with a sudden total or partial shutdown of the pipeline due to break of airtightness of the pipeline itself or shut-off and control valves or a blockage of the pipeline. A pipeline failure does not always entail a spill of oil, oil products or formation water, as well as a gas leak. The calculation uses the total length of pipelines (oil pipelines, gas pipelines and water pipelines).

¹ In accordance with the Regulations on the Development of Action Plans for the Containment and Elimination of Emergencies at Hazardous Production Facilities, approved by Russian Government Decree No. 730 dated 26 August 2013.

THE KOMI REPUBLIC

LUKOIL GROUP ENTITIES OPERATING IN THE KOMI REPUBLIC

LLC "LUKOIL-Komi" – exploration and oil production on the territory of six municipalities: Usinsk, Ukhta and Vuktyl urban districts, as well as Pechora, Sosnogorsk and Izhma municipal districts.



LLC "LUKOIL-Ukhtaneftepererabotka" (municipality of the city of Ukhta) - the oldest oil refinery of the Russian industry.



LUKOIL is taking active steps to improve the reliability of its pipeline system and the overall environmental situation in the Komi Republic. A set of measures is implemented annually, including protecting pipes against corrosion; the repair, renovation, and technical re-equipment of pipelines; and corrosion monitoring.

In 2019 more than RUB 7 billion was allocated to environmental protection measures, and over RUB 4 billion alone was spent on repairing and replacing pipelines in the Komi Republic. To mitigate technological and environmental risks, pipes with shorter life expectancy are replaced by corrosion-resistant pipes (made of steel with internal and external anticorrosion coating). In 2019 corrosion-resistant pipelines made up 24.4% of the total length of LUKOIL-Komi pipelines. At the same time, the speed and volume of pipe replacement depends on the technical condition of pipelines, and an independent expert organization performs diagnostics and determines the remaining service life of pipes. Inadequate sections are subject to prompt repair or renovation; as a result, the number of failures declined in 2019.

Overall, the replacement ratio of infield pipelines was 3.2% in 2019. Pipelines with inhibitor protection comprises 29% of the total length of pipelines. The number of personnel involved in the maintenance processes of chemical injection skids and monitoring corrosion inhibitor for field pipelines rose.

In 2019 the Company also elaborated comprehensive organizational and technical measures to reduce social and environmental risks in the Komi Republic. The implementation of the measures is scheduled

for 2020-2022. Plans include additional work to replace hazardous sections of pipelines and to rehabilitate contaminated sites.

On an ongoing basis the Company interacts with suppliers of pipe products with internal protective coatings. In particular, bypass pilot testing of alternative protective coatings for pipes is conducted, with expert appraisals issued on product compliance with PJSC LUKOIL technical requirements.

For example, it was initially planned to use an internal silicate enamel coating for a water pipeline at the Yarega field. Based on recommendations issued by the Network Group's experts, pilot testing of new types of coatings were performed over two years to determine the most reliable solution. As a result, an alternative option was selected. PermNIPneft recommended using the Sigmaline 2,500 epoxy phenolic coating, with a guaranteed service life of at least 10 years vis-à-vis quality and material conformity. Replacing the internal protective coating at this facility allowed LUKOIL-Komi to reduce capital expenditure on the construction of a water pipeline by over RUB 266 million, while at the same time boosting the operational reliability of the facility.

Complaint management

LUKOIL Group has a Social Code in place which sets forth obligations related to interacting with local communities and indigenous peoples.

At key stages of projects LUKOIL holds consultations with residents whose interests may be impacted by corporate plans. Various communication channels are used for this purpose, including public hearings on projects, personal meetings between LUKOIL Group management and specialists and residents,

and a permanent hotline to interact with the public. The opinions of local residents are taken into account when deciding on project implementation parameters.

For example, the Company informed Ust-Usa village residents about the construction of an exploration well at the West Usinskaya facility in 2019. The public opposed these plans on account of the proximity of the site to settlements. Following consultations, it was decided to move the construction site and in addition to hold regular meetings with an advocacy group of residents to address a wide range of social issues faced by local villages.

Another example concerned discussions about a disposal site for the Shchelyayurskaya group of fields owned by LUKOIL-Ukhtaneftgaz. In 2018, during public hearings, Izhemsky District residents objected to the construction of the site. In 2019 representatives of the district and public organizations (including Pechora Rescue Committee representatives) visited a similar facility, an oil sludge disposal site at the Zapadno-Tebukskoye oil field.

Visitors were shown around the site and informed about how it operates, and all their questions were answered. The Pechora Rescue Committee representatives were able to satisfy themselves that the site is a modern and high-tech facility that will neutralize oil sludge without any negative environmental impacts. The representatives left positive feedback about their trip in social networks.

For example, see the [Environmental Protection group](#)



In 2019 the Company continued to operate its hotline, including coverage of environmental safety issues. 249 calls were received, although most were unrelated to environmental safety. All reports relating to the environment were verified, and no violations of environmental safety standards were identified.

LUKOIL-Komi liaises with active public and national organizations, including Komi Voityr, the movement of the Komi-Izhemtsi ethnic group Izvatas, Rus Pechorskaya, and the Pechora Rescue Committee. Cooperation agreements are concluded annually with a number of these organizations and support is provided to their projects. Furthermore, LUKOIL-Komi representatives participate in social movement assemblies and conferences.

As part of the Social and Cultural Projects Competition, Komi residents are given an opportunity to implement environmental initiatives related to the conservation of the environment and natural objects, and environmental education and culture. For example, 2019 saw the successful implementation of the project "Clean River - Clean City" to clean the banks and bed of the Chibyu River, using a grant from LUKOIL-Komi.

THE KOMI REPUBLIC

ARCTIC BIODIVERSITY

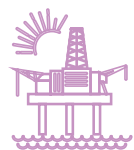
TIMAN-PECHORA OIL AND GAS PROVINCE



TOTAL AREA:
445.7 THOUSAND SQ. KM.



ARCTIC AREA:
275 THOUSAND SQ. KM
126.7 thousand sq. km
offshore



HYDROCARBON
RESERVES OF
2.4 BILLION TONNES
OF WHICH OIL
ACCOUNTS
FOR
60%

MAIN SUBSOIL USERS:

LUKOIL,
Rosneft,
Gazprom,
ZARUBEZHNEFT
Dobycha-Kharyaga,
and Pechoranef, etc.



Oil and gas production in the Komi Republic is carried out by LUKOIL in territories populated by dark coniferous and subtundra forests, as well as in the tundra of the Nenets Autonomous Area. Consequently we are obliged to treat with care and seek to conserve local ecosystems.

In 2018 documents related to the Company's operations in the Komi Republic were approved as part of a corporate biodiversity preservation program in the Arctic Zone. Positive experience from the biodiversity preservation program implemented in Uzbekistan was taken into account, training sessions were held for staff and contractors, and the registration and logging of indicative species of Arctic fauna was introduced. A joint project with Russian environmental organizations to monitor indicator bird and animal species is being executed. In addition to the recording of Red Book species of ornithologic fauna, the appearance of other fauna species was also observed. Monitoring continued in 2019.

SOCIAL PARTNERSHIP

LUKOIL-Komi is a major mining enterprise in the North-Western Federal District and employer in the Komi Republic, and therefore actively participates in the activities of towns and villages in the Komi Republic. In 2019 the Company allocated over RUB 800 million to social activities, including under a cooperation agreement between the Government of the Komi Republic and PJSC LUKOIL.

Employment

Many residents of the Republic wish to work with LUKOIL-Komi, as it offers attractive social benefits and pay. LUKOIL Komi gives priority to local residents, and this is enshrined in cooperation agreements with the Government of the Republic. In 2019, 708 people were hired. The approach focuses on hiring young graduates from local professional educational institutions; 56 young employees were recruited in 2019.

Jobs are allocated for the disabled: in 2019, the entity employed 24 disabled local residents, and eight jobs were financed under an agreement with the Usinsk City Organization of the Disabled.

Construction of rural outpatient clinics

LUKOIL provides support to help resolve social issues in the Republic. For example, residents of the Mutny Materik and Shchelyabozh villages sought our help to renovate rural outpatient clinics. When the results of a building inspection revealed that the current buildings could not be appropriately renovated, LUKOIL-Komi offered to build new modern social facilities, and the Government of the Komi Republic, represented by the Ministry of Health, supported the project. As a result of the joint project new outpatient clinics were equipped with wards for 24-hour patient stays and daytime hospital procedures, along with dental, physiotherapeutic treatment, and vaccination rooms. As charitable aid LUKOIL-Komi and the LUKOIL Charity Foundation bought medical equipment. The clinics are scheduled to open in 2020.

Cooperation agreements

The Cooperation Agreement with the Government of the Komi Republic provides for the financing of facilities and activities which are selected in negotiations with municipalities and the Ministry of Investment, Industry and Transport of the Komi Republic.

We also respond to requests from municipalities to build social facilities. For example, the Yugdom Ice Palace in Usinsk, built with financial support from LUKOIL-Komi, hosts a regular hockey tournament with teams from other cities. The city administration requested the construction of a sports hall with stands for sports enthusiasts. As a result, together with the Government of the Komi Republic it was decided to build a second building at the Yugdom Ice Palace. The new building has a hall with 200 seats in which various sports can be played, including five team member football, volleyball, and basketball. There is also a hall for wrestling and judo.

SAFETY OF THE ARCTIC ZONE, NORTHERN TERRITORIES AND OFFSHORE FACILITIES



The safety of production activities in the Arctic Zone and northern territories is closely monitored by the public, due to the high risks related to upsetting the ecological balance in these locations.

RUSSIA

In Russia, the Arctic Zone¹ comprises not only the continental shelf and islands in the Arctic Ocean, but also the territories (or part of them) of eight Russian regions, in three of which LUKOIL conducts operations. The Pyakyahinskoye and Nakhodkinskoye fields, LUKOIL's main gas assets, are being developed in the Yamal-Nenets Autonomous Area, while in the Nenets Autonomous Area LUKOIL extracts oil and natural gas. The village of Varandey is home to Russia's northernmost oil and petroleum product shipping terminal.

To enhance the safety of production processes cutting-edge technologies are used, including pitless drilling and safe production methods for hard-to-recover oil reserves (HTR reserves). We use pipes with internal protective coatings, external heat-insulating and water-proof coatings, and electrical heating for pipes. Field pipeline routes are inspected from helicopters.

In 2019, for the second consecutive year, LUKOIL made the top three (it ranked first in 2018) based on the results of the Polar Index rating (managed by the Project Office for the Development of the Arctic and the Economics Department of Moscow State University), which assesses the sustainable development of companies working in the Russian Arctic.



VARANDEY

The Varandey Terminal comprises two interconnected facilities located onshore and offshore in the Barents Sea. Oil is stored in coastal tanks for subsequent shipment to ships through a stationary, ice-resistant marine loading berth located 22 kilometers from the shore. Varandey has extensive experience in year-round marine transportation of large volumes of oil under icy conditions and wave loads. Given the high risk of an accident in icy conditions, the design and construction of the terminal was based on a state-of-the-art design and technical solutions which were adopted in Russia for the first time:

- the environmental safety system of the shipping berth has three levels of protection and operates in an autonomous mode;
- oil shipments are automatically shut down in an emergency;
- specially strengthened double-hulled tankers were built, which can carry oil shipments all year round;
- the tank farm premises are ringed by a reinforced concrete fence that prevents any release of oil products into the environment in the event of damage to the tank.

Oil is supplied from the shore terminal to the loading berth in a cyclical manner via two lines of subsea pipelines, which facilitates the continuous heating of the oil and prevents it from freezing inside the pipe.

We place a special emphasis on the prevention of emergency situations and on developing the skills necessary to eliminate potential spills in icy conditions. In accordance with approved Oil and Oil Product Spill Prevention and Response Plans, special vessels with equipment for emergency management (under a contract with professional emergency rescue teams) are on 24-hour duty at all offshore facilities of LUKOIL Group entities.

Cooperation agreements have been signed with other companies working in the Arctic Zone, which facilitates the development of optimum joint operations to eliminate potential oil spills.

In order to protect the environment, technological processes are automatically monitored to ensure

the detection of potential leaks of pollutants in real time. Devices are used to shut down emergency process equipment. A system to continuously monitor the impact of production on the environment is in place.

No significant incidents have so far occurred during the 11 years of operation of the terminal.

ARCTIC



TOTAL AREA:
29.8 MILLION SQ. KM



LAND AREA:
14 MILLION SQ. KM.



**THE POPULATION
INCLUDES**
30 DIFFERENT PEOPLES



FLORA
20 THOUSAND SPECIES.



FAUNA
>180 SPECIES.

**THE COMPANY, IN ACCORDANCE
WITH ITS INDUSTRIAL
AND ENVIRONMENTAL SAFETY
POLICY, SEEKS TO MINIMIZE
THE IMPACTS OF LUKOIL GROUP
ENTITIES' ACTIVITIES ON THE CLIMATE
AND BIOLOGICAL DIVERSITY
OF VULNERABLE AREAS, INCLUDING
THE ARCTIC ZONE OF THE RUSSIAN
FEDERATION.**

ARCTIC ZONE COUNTRIES:

Russia	Iceland
The United States	Norway
Canada	Sweden
Denmark	Finland

¹ An expansion of the boundaries of the Arctic Zone in the Komi Republic is being considered.

NORWAY

Another northern region in which LUKOIL works is Norway. While not the system operator, LUKOIL Overseas North Shelf AS is a participant in two license projects on the Barents Sea shelf. At the time of preparing this Report, both projects were in the exploration stage.

LUKOIL Overseas North Shelf AS ensures high standards of operations in accordance with the recommendations of the KonKraft¹ report "Competitiveness – a changing tide on the Norwegian continental shelf." The document standardizes the approaches to interaction among operators of oil and gas production projects and third-party service companies. The requirements of KonKraft have been taken into account in the management system of LUKOIL Overseas North Shelf AS and its emergency response program.

In accordance with Norwegian law, when preparing for well construction the project operator, on behalf of all partners (participants), sends a package of documents to regulatory authorities, which contain comprehensive information on the volume

of expected emissions, the quantity and concentration of chemical and pollutant discharges, and other data.

The documents are discussed at a public hearing attended by representatives from Greenpeace, the Norwegian Directorate of Fisheries, the Norwegian Institute of Marine Research, the Norwegian Polar Institute, and other stakeholders. LUKOIL presented information at the hearing on its corporate principles and experience in implementing environmental protection and industrial safety measures when implementing projects in Russia and abroad, including the zero-emission principle.

As a participant in offshore exploration and production projects, LUKOIL Overseas North Shelf AS takes into account best practices in reducing emissions and gas flaring. A decision was made to electrify onshore and offshore facilities, which contributes to the reduction of GHG emissions and prevents the use of gas turbines on the shelf. To avoid associated petroleum gas flaring², gas injection is used to enhance oil recovery

or for underground storage (in the absence of economically viable gas transportation to consumers).

The projects use modern technologies to ensure safety and to boost energy efficiency. Digital solutions are being actively introduced into production processes, and modern software products are used in geological and geophysical studies and for well drilling.

LUKOIL Overseas North Shelf AS is an active participant in cross-industry initiatives and in projects in Norway aimed at reducing risks and ensuring responsible environmental activities in Arctic Zone projects, such as ACCES (2016–2019).

INFORMATION SECURITY

Information security is becoming an increasingly important area for the oil and gas industry. Information security threats raise the risk of accidents as well as the scale of their impact. LUKOIL-Technologii has established an information security unit that is staffed with highly qualified specialists. In accordance with the Federal Law "On the Security of the Critical Information Infrastructure of the Russian Federation," LUKOIL Group entities have categorized critical information infrastructure facilities. A qualitative assessment has been made of potential damage due to the loss of integrity, confidentiality, or accessibility.

A monitoring center works continuously to detect weaknesses at an early stage, depending on the degree of criticality of an information resource, and risk mitigation measures are elaborated and implemented.

Requirements related to compliance with information security rules are included in contracts with contractors (violations constitute grounds for imposing penalties) as well as in the job descriptions of employees. Non-compliance with the rules represents a serious violation of work discipline and work duties. Each incident is investigated.

To ensure the reliability of information systems, vulnerability analysis is carried out before commissioning and during operation, and methods of safe software development are being introduced.

Ensuring the protection of personal data is an important area of the Company's client-oriented policy. The Company uses access control to internal networks, application and system-wide levels, means for recording and keeping a log of users' activity, antivirus software, password systems for networks and information systems that process personal data, firewalling tools, and physical access controls. The safeguarding of personal data is also ensured through trainings and methodological support for employees.



To further improve information security the following main projects are planned:



increasing the level of automation of cybersecurity operations, chiefly in terms of providing user authority in information systems and monitoring its appropriate use



designing information security systems for significant facilities under critical information infrastructure



upgrading and replacing obsolete security tools.

¹ KonKraft is a platform for interaction between state authorities, oil and gas companies, and the industry association, whose main purpose is to come up with mutually beneficial solutions to enhance the competitiveness of the industry through coordinated approaches, including in the field of safety, environmental protection, and climate change.

² Associated petroleum gas flaring is prohibited on the Norwegian shelf, except in emergency situations (emergency flaring).

ENVIRONMENTAL PROTECTION



Igor Zaikin
Head
of HSE Department
of PJSC LUKOIL

Q WHAT TASKS DID THE COMPANY DEAL WITH AS PART OF THE ENVIRONMENTAL SAFETY PROGRAM IN THE REPORTING YEAR?

A The implementation of the environmental program in 2019 enabled us to improve our performance vis-à-vis key environmental impacts. Some activities were aimed at further expanding the value-added use of associated petroleum gas, resulting in this indicator rising to 97.5% in Russia and 98.9% abroad. At the same time, APG flaring fell by 6%. We also managed to reduce air pollutant emissions across the Group. Thanks to the projects implemented, we achieved the key performance indicator for waste management activities, with the volume of waste disposal matching that of waste generation.

In line with the Company's plans related to climate change, a new unit was created in the HSE Department, which will coordinate activities on greenhouse gas emission management and adapting to climate change, and prepare proposals for long-term targets.

Q HOW DOES THE COMPANY PARTICIPATE IN THE BUSINESS AND BIODIVERSITY INITIATIVE?

A Biodiversity conservation is a priority within LUKOIL's environmental policy. We conduct regular environmental monitoring and implement projects to restore and increase fish populations and vegetation, including rare species. In 2018 the Company joined an initiative as part of the Russian federal project entitled Conservation of Biological Diversity and the Development of Ecotourism, and became a member of a task force of the Ministry of Natural Resources and Environment of the Russian Federation.

Recently we launched a new project aimed at restoring and protecting the saiga population. This species of antelope is on the verge of extinction and is planned to be included in the Red Book of Russia. Our joint efforts with the Russian Ministry of Natural Resources and the governments of the Republic of Kalmykia and the Astrakhan Region will make an important contribution to maintaining the ecosystem of the Caspian Region. A roadmap for saiga conservation has already been approved, and the project strategy, together with specific activities, are being developed.

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CONSERVATION
PROGRAM
IN UZBEKISTAN

KEY CHANGES AND RESULTS IN THE REPORTING YEAR



RUSSIAN ENTITIES CUT AIR
POLLUTANT EMISSIONS BY

7.2%



A DECISION WAS MADE
TO LAUNCH A JOINT PROJECT
WITH THE MINISTRY OF NATURAL
RESOURCES AND ENVIRONMENT
OF THE RUSSIAN FEDERATION
ON SAIGA ANTELOPE
CONSERVATION IN THE "BLACK
LANDS" NATURE RESERVE
AND THE "STEPNOI" RESERVE



ALL PRODUCTION WASTE GENERATED BY THE RUSSIAN ENTITIES WAS FULLY DISPOSED OF,
AND THE AMOUNT OF PRE-PRIVATIZATION WASTE DECREASED BY

17%



CONTEXT

Environmental issues received significant attention in the assessment of contributions to the UN Sustainable Development Goals in 2019. The main reason for this was the poor progress made in improving the environmental situation globally.

Generally, three of the 17 UN Sustainable Development Goals are classified as relating to the environment¹. According to the Sustainable Development Goals Index², no progress was made on any goal in 2019. Significant challenges remain, particularly as far as the preservation of healthy oceans and biodiversity on land is concerned.

Experts and scientists point out the urgent need to intensify collaborative efforts of governments, companies and public organizations. In particular, green investments equating to 2% of a country's GDP could facilitate long-term growth and at the same time reduce negative impacts on climate, water resources and ecosystems³.

The accelerated adoption of existing production and environmental technologies, the active use of scientific data, and greater funding for solutions to environmental issues were identified as the most urgent tasks, including for companies, since human health and well-being directly depends on the state of the environment.

ENVIRONMENTAL SAFETY PROGRAM

According to LUKOIL's Health, Safety and Environment Policy, environmental protection is one of the Company's priorities. The integrated management system and the actions taken in 2019 to improve the environment are described in detail in the Safety section (see page **72**).

To enhance our environmental protection management system, LUKOIL systematized biodiversity conservation initiatives in 2019 as part of the expansion of our activities in this area. Criteria and approaches were developed to make our activities more systematic and to obtain more measurable results.

In addition, the Company continued to enhance data preparation methods in line with the GRI Standards, and disclosures are being expanded to better inform stakeholders.

For the first time, this Report includes disclosures on the environmental impacts of the refinery in Italy (ISAB S.r.l.) and oil product supply entities abroad (IOOO LUKOIL Belorussia and LUKOIL-BULGARIA EOOD). As before, the disclosures on the refineries LUKOIL Neftochim Burgas AD (Bulgaria) and PETROTEL-LUKOIL S.A (Romania), as well as the Uzbek production project LUKOIL Uzbekistan Operating Company LLC, data on which are disclosed from 2018, are included.



THE ENVIRONMENTAL
SAFETY PROGRAM
FOR 2019-2021¹
CONSISTS OF

10 SUBPROGRAMS
AND INCLUDES OVER

900

EVENTS,

45²

RUSSIAN
AND FOREIGN ENTITIES
OF LUKOIL GROUP
PARTICIPATE
IN THE PROGRAM.



In 2019 PJSC LUKOIL was rated in the top five in the environmental transparency rating of Eurasian oil and gas companies. The rated companies' potential impact on the environment and their information transparency were assessed by the World Wildlife Fund (WWF) Russia and CREON Group. In total, the rating included 20 companies from Russia (producing more than 1.5 million tonnes of oil and gas condensate), 14 companies from Kazakhstan and 2 from Azerbaijan.

Most of the budget of the 2019 Environmental Safety Program (RUB 35.9 billion) was spent on measures to increase the sustainable use of associated petroleum gas (around 40% of the costs of the Program) and the reliability of pipeline transport.

¹ SDG 6 (Clean Water and Sanitation), SDG 14 (Life below Water) and SDG 15 (Life on Land). Nevertheless, given the interconnectedness of all the 17 UN goals, the environment also affects the achievement of the other goals.

² Source: the Sustainable Development Goals Index, <https://www.sdindex.org/>

³ Source: Global Environmental Outlook 6, UN Environmental Programme, 2019.

¹ Planning of activities under the target program is synchronized with corporate medium-term planning procedures. The program is developed for three years and is annually reviewed. During the previous reporting period, the target program for 2018-2020 was in effect.

² The Environmental Safety Program for 2018-2020 involved 53 LUKOIL Group entities. As a result of some organizational changes (consolidation of a number of entities in the Russian Oil Product Supply business sector and transfer of responsibility for the Transportation business sector to LUKOIL-Trans), the number of entities participating in the Program decreased, but the number of production facilities did not change as compared to 2018.

Non-standard payments¹ in the reporting year accounted for 4% of total penalties based on negative environmental impacts. In 2019, a significant

fine of RUB 68.9 million was paid under a lawsuit filed by the Department of the Federal Service for Supervision of Natural Resources Management

for the Komi Republic against LUKOIL-Komi for environmental damages.

LLC LUKOIL-Komi's operating division Yareganef is developing the Yaregskoye field, one of the oldest sources of high-viscosity oil in Russia. In April 2016, the Yarega River and the Maly Voyvoz stream near the Yarega settlement, Ukhta District, were heavily polluted with oil products, following an oil spill from old wells. The Department of the Federal Service for Supervision of Natural Resources Management for the Komi Republic brought a lawsuit against LLC LUKOIL-Komi for damage caused to the environment. After litigation lasting over two years, the Arbitration Court of the Republic of Komi ruled on 8 April 2019 to satisfy the claimant's claims, ordering LUKOIL-Komi to pay RUB 68.9 million in damages to the Department of the Federal Service for Supervision of Natural Resources Management of the Komi Republic.

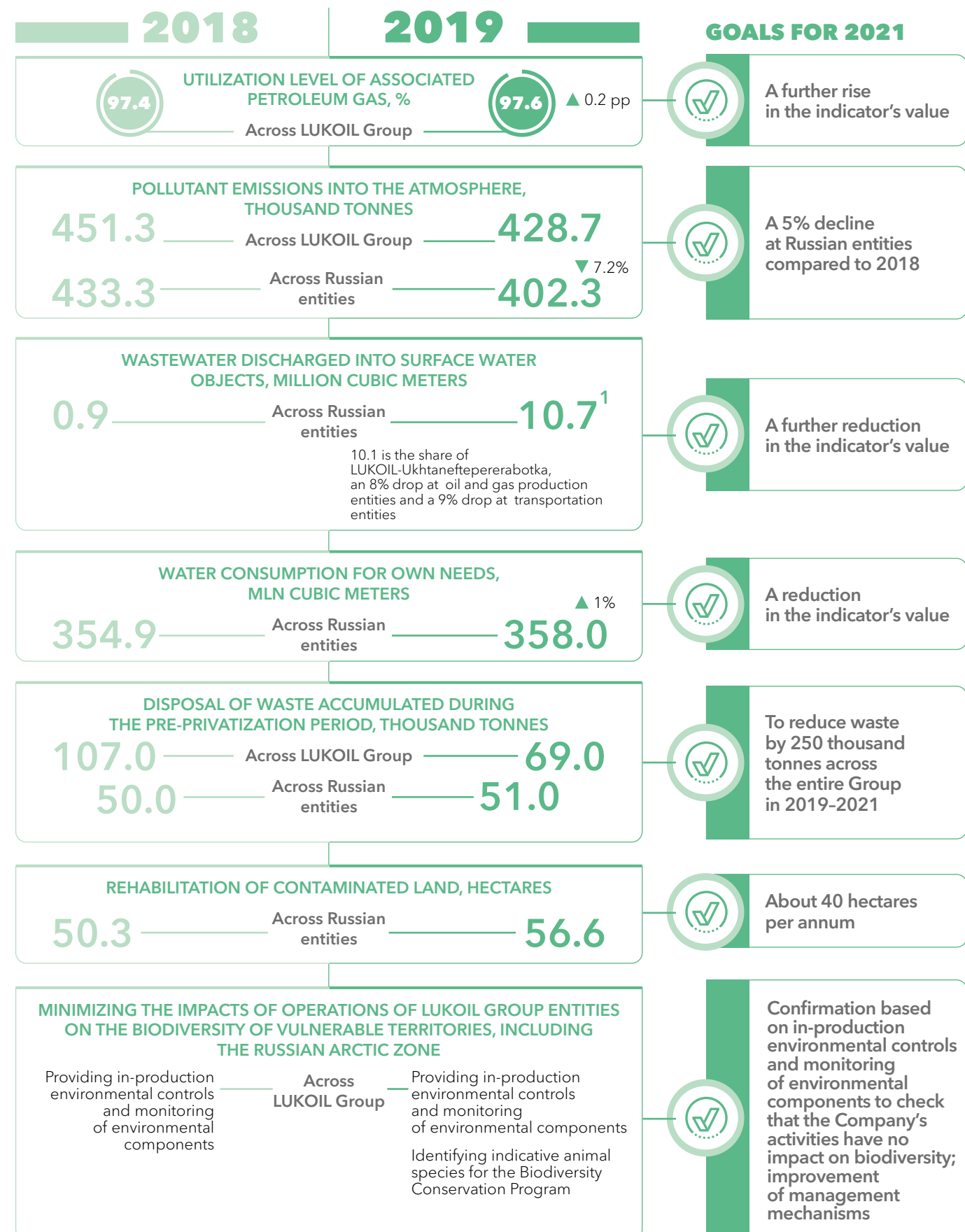
In 2016, a plan of organizational and technical measures for rehabilitation of the disturbed territories and water bodies was drafted, and the Company started to implement it immediately, before the final decision on the case was made. In 2016-2019, LUKOIL-Komi carried out cleaning and remediation of the nearshore zone of the Yarega River and streams flowing into it, with a total area of 20 km. Sediment was cleaned in the area of the crossing of the stream at the "Yareganef" production site, from the crossing to the mouth of the Maly Voyvoz stream, and at the section of the Yarega River to the inflow into the Izhma River. The cost of the work performed was taken into account when determining the amount of damage in the litigation.

At the same time, the cleaning of bottom sediments was complicated

due to the lack of in situ treatment technology. A proposal from Tomsk State University on how to solve this issue was received in 2019 and is currently being considered. Depending on the results, a decision will be taken on the feasibility of this technology.

The measures taken by LUKOIL-Komi to mitigate the impacts of Yareganef's activities on water bodies include construction of new treatment facilities. Construction started in 2016 and was completed in 2019. In 2019, the facilities also underwent pre-commissioning and essential retrofitting. Commissioning is scheduled for 2020.

Indicators of LUKOIL Group's Environmental Safety Program



Note. Data for LUKOIL Group for 2018 are presented in accordance with 2018 reporting boundaries, and for 2019 - in accordance with 2019 reporting boundaries.

¹ The indicator growth for LUKOIL Group is solely due to the classification of LUKOIL-Ukhtaneftepererabotka wastewater in 2019 as insufficiently treated as the discharge rates had been aligned with the concentration levels for top-class fishery water bodies.

¹ Non-standard payments, inter alia, may arise due to delays in obtaining permit documents.

WATER

Water is used in all production cycle stages from exploration and production of hydrocarbons to the delivery of finished products to the consumer.

Our key approach to solving the issue of sustainable water use involves applying water recycling and reuse systems at the refineries' production facilities and power generation facilities, both

of which are major water users. We are also committed to the most efficient use of fresh water in our production and refining processes. Fresh water accounts for 59% of total water withdrawn by LUKOIL Group entities¹.

As part of the corporate Environmental Safety Program, water resource management activities have been

integrated into the "Clean Water" subprogram. To improve the water use system, the Company builds, renovates and re-equips water treatment and wastewater treatment systems.

In 2019, the following priority projects were implemented:

Renovation of biological treatment facilities at the Ukhta Refinery

Upgrades to biological treatment facilities at the Saratovorgsintez plant

The treatment (disposal) of wastewater from combined cycle plants and elimination of old settling basins of oil mine treatment facilities at LUKOIL-Komi

The construction and renovation of formation (produced) water treatment systems at LUKOIL-Perm

WATER WITHDRAWAL

Our operations in Russia are carried out in regions that have ample water resources, with the exception of regions with high population density and concentrated economic activity in southern Russia (Astrakhan and Volgograd Regions, the Stavropol and Krasnodar Territories).

Among foreign countries, Uzbekistan and Iraq are classified as having low water levels. In these countries there are risks of frequent droughts, lack of drinking water and interruptions in the supply of clean water to the local population.

In Russia, around 84% of the volume of water withdrawal is taken by LUKOIL entities from surface and underground water sources. Water is mainly withdrawn from the Ob, Pechora, Volga, Don and Kuban river basins in accordance with respective permits and within established quotas.

In 2019, the volume of water withdrawal by Russian entities changed insignificantly compared to the 2018 level. The general indicators of water withdrawal and water consumption in Russia are significantly affected by the organization of the electric power industry.

Water withdrawal by organizations of the business sector "Power Generation" accounts for about 69% of water withdrawal in Russian organizations and for about 44% of the volume of water withdrawal for LUKOIL Group.



Our commitment to the sustainable use of natural resources, including water, covers:



minimizing impacts of operations, and reducing fresh water withdrawal



reducing operational dependence on potential external unfavorable factors, including natural ones (droughts, shrinking of surface water bodies, and pollution of underground sources).

Water withdrawal and consumption by LUKOIL Group entities, million cubic meters

	2017	2018	2019
Water withdrawal across LUKOIL Group			
Within the boundaries for 2018	-	449.8	464.0
Within the boundaries for 2019, including:	-	-	694.0
Russian entities	511.1	428.5	441.0
The share of electric power entities	331.9	297.7	303.6
Foreign entities (without ISAB and oil product supply entities)	-	21.3	23.0
• ISAB	-	NA	229.9
• Oil product supply entities	-	NA	0.1
Water consumption for own needs (household, industrial, other) by LUKOIL Group	-		
Within the boundaries for 2018	-	374.4	379.0
Within the boundaries for 2019, including:	-	-	609.0
Russian entities	376.4	354.9	358.0
Foreign entities (without ISAB and oil product supply entities)	-	19.5	21.0
• ISAB	-	NA	229.9
• Oil product supply entities	-	NA	0.1
Other operations			
LUKOIL Group, including:	-	34.5	28.9
Russian entities	NA	34.5	28.1
Foreign entities (without ISAB and oil product supply entities)	-	0.0	0.8
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.0
Unused water transferred to third-party consumers by LUKOIL Group			
LUKOIL Group, including:	-	40.9	56.1
Russian entities	NA	39.1	54.9
Foreign entities (without ISAB and oil product supply entities)	-	1.8	1.2
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.0

Note. (1) Data on LUKOIL Group are published in the Report starting from calendar year 2018 (reporting year). (2) In 2018, the methodology for accounting for water use in Russian entities was improved by eliminating duplicate accounting for water used in intra-group transfers (between LUKOIL Group organisations). (3) Other operations include: formation water injected into absorbing underground formations; household wastewater received from other users by LLC LUKOIL-Ukhtaneftepererabotka and transferred to its treatment facilities.

¹ Within the reporting boundaries of 2019.

Total water withdrawal by LUKOIL Group entities by water withdrawal sources, million cubic meters

	2017	2018	2019
Water withdrawn, total in LUKOIL Group	-		
Within the boundaries for 2018	-	449.8	464.0
Within the boundaries for 2019	-	-	694.0
Water withdrawn by water withdrawal sources, including:			
1) from surface sources			
Within the boundaries for 2018	-	287.0	290.0
Within the boundaries for 2019, including:	-	-	340.5
Russian entities, including:	279.7	267.6	269.7
• sea water	NA	11.4	11.0
• water from other surface sources	NA	256.2	258.7
Foreign entities, including:	-	19.4	70.8
• sea water (without ISAB and oil product supply entities)	-	0.0	0.0
• ISAB	-	NA	50.5
• Oil product supply entities	-	NA	0.0
• water from other surface sources (without ISAB and oil product supply entities)	-	19.4	20.3
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.0
2) from underground sources			
Within the boundaries for 2018	-	99.0	102.3
Within the boundaries for 2019, including:	-	-	104.8
Russian entities, including:	76.1	97.1	99.7
• fresh water	NA	64.7	61.2
• other water	NA	32.4	38.5
Foreign entities, including:	-	1.9	5.1
• fresh water (without ISAB and oil product supply entities)	-	0.04	0.04
• ISAB	-	NA	2.5
• Oil product supply entities	-	NA	0.0
• other water (without ISAB and oil product supply entities)	-	1.9	2.6
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.0
3) from other sources (centralized water supply systems, etc.), including	-	63.8	248.7
Russian entities	155.3	63.8	71.6
Foreign entities, including:	-	0.0	177.1
• without ISAB and oil product supply entities	-	0.0	0.1
• ISAB	-	NA	176.9
• Oil product supply entities	-	NA	0.1

Note. (1) Data on LUKOIL Group are published in the Report starting from calendar year 2018 (reporting year). (2) In 2018, the methodology for accounting for water use in Russian entities was improved by eliminating duplicate accounting for water used in intra-group transfers (between LUKOIL Group organisations). (3) Since 2019, the volume of water intake has been calculated with the release of data on sea water. (4) The data on the volume of water intake from underground sources includes formation water subsequently injected into the underground formations. (5) Water withdrawal from other sources includes wastewater from utilities taken and transferred to treatment facilities without use by Group organizations.

WATER CONSUMPTION

Oil and gas production entities of LUKOIL Group mainly use water for formation pressure maintenance and in the desalting of produced oil.

Refining, Marketing and Distribution business segment entities (excluding the business sector "Power Generation") totally consume for own needs around 47% of all water used¹ across LUKOIL Group. The Company implements measures annually to optimize water consumption. In 2019 a new water recycling system was introduced at the Korobkovsky GPP, which resulted in reduced consumption of make-up² water. There are plans to implement investment projects for the construction of a boiler water treatment unit at the Nizhny Novgorod Refinery and the upgrading of the water recycling units at the Volgograd Refinery

with the decommissioning of obsolete equipment to boost water use efficiency.

Power generation entities use water to generate steam and cool equipment in thermal power plants. The water consumption³ for own needs by the organizations of the business sector Electricity is about 62% of the water consumption structure of Russian organizations and about 36% of the water consumption of LUKOIL Group.

The Group's oil and gas production, transportation and refining organizations use water withdrawn from the sea. Water from the Caspian Sea is used by LUKOIL-Nizhnevolzhskneft to cool equipment and is returned chilled to almost its natural temperature back

to the sea without being used in other production processes and without being contaminated.

The Italian refinery (ISAB) withdraws water for production purposes from the Mediterranean Sea. After desalting, sea water is used to cool oil processing facilities. In order to reduce water consumption at the plant, part of the steam condensate circuit and the recovery system has been optimized, and measures have been taken to reuse sea water after treatment.

Specific water consumption by Russian entities remains relatively stable across all business sectors.

Specific water consumption for operational needs by Russian LUKOIL Group entities, broken down by types of activity

	2017	2018	2019
Oil and gas extraction, cubic meters/tonne of oil equivalent in hydrocarbon resources	1.0	1.0	1.0
Oil processing, cubic meters/tonne of processed oil	0.5	0.5	0.5
Petrochemicals, cubic meters/tonne of processed raw materials	7.3	6.4	6.9
Oil product supply, cubic meters/tonne of oil products sold	0.07	0.10	0.07
Transportation, cubic meters/tonne of oil, oil products transported	0.02	0.02	0.01
Power generation, cubic meters/tonne of oil equivalent in consumed fuel	34.4	34.0	35.3

Notes. (1) Specific indicators are calculated based on volumes of water consumed by LUKOIL Group entities for their own needs. (2) Fluctuations in the indicators of petrochemical and oil refining entities are mainly due to a change in the volume of products produced. (3) The performance of the indicator of the Power Generation business sector is explained by the fact that in 2019, along with a decrease in production due to a warm winter, a number of standard technical measures were taken at LLC LUKOIL-Kubanenergo and LLC LUKOIL-Stavropolenergo. (4) The change in the methodology for accounting for water use in 2018 did not affect the value of the indicators for 2017.

¹ In this case, the volume of water consumed for own needs by the Refining, Marketing and Distribution business segment of total consumption for own needs by LUKOIL Group is implied.

² Make-up water is water that has been chemically and thermally processed and is intended to compensate water losses in heat-consuming facilities and heating networks.

³ In this case, the volume of water consumed for own needs of the "Power Generation" sector from the total consumption for own needs of LUKOIL Group and Russian entities is implied.

WATER REMOVAL AND WASTEWATER QUALITY

The Company monitors wastewater quality on an ongoing basis, paying special attention to biological, chemical and physical properties of water. Improving the quality of wastewater is one of the objectives of the Environmental Safety Program. Compliance with established standards is monitored by LUKOIL laboratories as part of in-production environmental controls, as well as by independent certified organizations.

Wastewater generated from the production process is transferred to treatment facilities, which use mechanical, biological and physical-chemical treatment methods. Measures are taken to identify and prevent any potential negative impact associated with wastewater disposal.

The main activities aimed at improving wastewater quality at oil and gas production entities in 2019 included

building wastewater treatment facilities for the Yareganef oil and mines division of LUKOIL-Komi (the facility is scheduled to be commissioned in 2020) and refurbishment of treatment facilities at the Ukhta Refinery. An upgrade of biological treatment facilities at the Saratovorgsintez plant is currently underway.

Oil refining¹ and petrochemical entities in Russia do not discharge polluted wastewater into surface water bodies.

In 2019, the share of polluted wastewater in the total water discharge into surface water bodies by Russian entities rose to 5% due to a change in the permitted discharge rates for the biological treatment facilities at the Ukhta Refinery (Komi Republic).



**CLEAN
AND TREATED WATER
AS PER THE CURRENT
STANDARDS ACCOUNTED
FOR
97%
OF TOTAL DISCHARGES
INTO SURFACE WATER
BODIES.**

At the Ukhta Refinery, after going through the biological treatment facilities, wastewater is discharged into a surface water body (the Ukhta River). In addition to wastewater from production processes, the plant receives and disposes of wastewater from a municipal organization Municipal Unitary Entity (MUE) Ukhavodokanal that supplies water to Ukhta residents. The volume of utility wastewater accounts for 83.5% of the total plant's wastewater.

The treatment facilities were built in 1967; the third phase of the project was begun in the early 1990s and was supposed to improve the treatment of wastewater.

However, due to a dramatic change in the country's economic situation, the project was not implemented in full. More stringent requirements of Russian environmental legislation have resulted in the existing biological treatment facilities no longer being able to provide the necessary quality of wastewater (in line with the level of maximum permissible concentrations of harmful substances in fishery water bodies).

The Company acknowledges the importance of treatment facilities not only for the refinery, but also for the city, and is implementing an environmental project to improve the quality of wastewater.

A reconstruction plan has been drafted and the four stages of the project to upgrade the plant's biological treatment facilities were already completed in 2017-2019. The full upgrade of the facilities is scheduled to be finished in 2023. By then, established standards for wastewater quality will have been achieved.

Water discharges by LUKOIL Group entities, million cubic meters

	2017	2018	2019
Total water discharged across LUKOIL Group	-		
Within the boundaries for 2018	-	352.5	357.6
Within the boundaries for 2019, including:	-	-	568.0
Russian entities	236.4	337.6	344.3
Foreign entities (without ISAB and oil product supply entities)	-	14.9	13.3
• ISAB	-	NA	210.3
• Oil product supply entities	-	NA	0.1
Water discharge by destination			
1. water discharge into surface water bodies for LUKOIL Group (without water discharges into the sea)			
Within the boundaries for 2018	-	218.1	216.5
Within the boundaries for 2019, including:	-	-	216.6
Russian entities	NA	203.4	203.4
Foreign entities (without ISAB and oil product supply entities)	-	14.7	13.1
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.1
2. water discharge into the sea			
Within the boundaries for 2018	-	11.3	10.9
Within the boundaries for 2019, including:	-	-	221.2
Russian entities	NA	11.3	10.9
Foreign entities (without ISAB and oil product supply entities)	-	0.0	0.0
• ISAB	-	NA	210.3
• Oil product supply entities	-	NA	0.0
3. water discharge into underground formations			
Within the boundaries for 2018	-	104.2	106.7
Within the boundaries for 2019, including:	-	-	106.7
Russian entities	NA	104.0	106.5
Foreign entities (without ISAB and oil product supply entities)	-	0.2	0.2
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.0
4. water transferred after use to a third party (excluding intra-group exchange)			
Within the boundaries for 2018	-	18.4	23.4
Within the boundaries for 2019, including:	-	-	23.4
Russian entities	NA	18.4	23.4
Foreign entities (without ISAB and oil product supply entities)	-	0.0	0.0
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.0
5. other water discharge			
LUKOIL Group, including:	-	0.5	0.1
Russian entities	NA	0.5	0.1
Foreign entities (without ISAB and oil product supply entities)	-	0.0	0.0
• ISAB	-	NA	0.0
• Oil product supply entities	-	NA	0.0

Note. (1) Data on LUKOIL Group are published in the Report starting from calendar year 2018 (reporting year). (2) In 2018, the methodology for accounting for water use in Russian entities was improved by eliminating duplicate accounting for water used in intra-group transfers (between LUKOIL Group organisations). (3) The volumes of water discharge into underground formations include formation water supplied for injection into absorbing formations. (4) In order to optimize the presentation of data, taking into account the expansion of the reporting limits in 2019, the format of the presentation of information on water disposal for the receiving facility was specified in comparison with the format of the Report for 2018: water disposal to surface water bodies (214.7 million cubic meters) by Russian entities and 14.7 million cubic meters by foreign organizations) is presented by category of recipient. (5) The content of hazardous chemicals (hazard class II - mainly lead) in the total volume of wastewater discharged into water bodies was only 8 kg.

¹ Except for LLC LUKOIL-Ukhtaneftepererabotka.

Water discharges into surface water bodies by wastewater quality across LUKOIL Group, million cubic meters

	2017	2018	2019
Total water discharged into surface water bodies for LUKOIL Group, including:	-	-	437.8
by Russian entities	236.4	214.7	214.3
by foreign entities (without ISAB and oil product supply entities)	NA	NA	13.1
• ISAB	NA	NA	210.3
• Oil product supply entities	NA	NA	0.1
Water discharge into surface water bodies by wastewater quality, including:			
clean standard-quality wastewater for LUKOIL Group	-	-	405.6
by Russian entities	206.2	186.3	186.8
by foreign entities (without ISAB and oil product supply entities)	NA	NA	8.9
• ISAB	NA	NA	209.9
• Oil product supply entities	NA	NA	0.0
wastewater treated to standard quality for LUKOIL Group	-	-	20.6
by Russian entities	29.1	27.5	16.8
by foreign entities (without ISAB and oil product supply entities)	NA	NA	3.3
• ISAB	NA	NA	0.4
• Oil product supply entities	NA	NA	0.1
polluted wastewater for LUKOIL Group	-	-	11.6
by Russian entities	1.1	0.9	10.7
by foreign entities (without ISAB and oil product supply entities)	NA	NA	0.9
• ISAB	NA	NA	0.0
• Oil product supply entities	NA	NA	0.0

Note. Polluted water is insufficiently treated water and wastewater that is not treated.

Specific discharges of insufficiently treated wastewater into surface water bodies by Russian entities of LUKOIL Group

	2017	2018	2019
Oil and gas extraction, cubic meters/tonne of oil equivalent in hydrocarbon resources	0.008	0.004	0.004
Oil refining, cubic meters/tonne of refined oil	0.000	0.000	0.037
Oil product supply, cubic meters/tonne of oil products sold	0.004	0.003	0.002
Transportation, cubic meters/tonne of oil, oil products transported	0.008	0.009	0.008

Notes. (1) No insufficiently treated water is discharged into water bodies by petrochemical and power generating entities. (2) Specific discharges of insufficiently treated wastewater by oil refining entities are calculated based on the volume of production wastewater from LUKOIL-Ukhtaneftepererabotka, excluding any utility wastewater received from MUE Ukhtavodokanal.

CIRCULATING WATER

Facilities of power generating entities and oil-refining and petrochemical production facilities in Russia are equipped with circulating process water supply systems. New production facilities are required to be equipped with circulating and recycled water supply systems and treatment facilities.

Volumes of circulating water supply and reused water in LUKOIL Group entities, million cubic meters

	2017	2018	2019
Russian entities			
Volume of circulating water supply	2,253.1	2,284.2	2,240.9
Volume of reused-sequentially used water	875.5	896.5	865.1
Foreign entities			
Volume of circulating water supply (without ISAB)	NA	198.9	213.2
• ISAB	NA	NA	0.8
Volume of reused-sequentially used water (without ISAB)	NA	1.1	1.2
• ISAB	NA	NA	1.0

EMISSIONS

Oil and gas production companies in Russia account for the biggest share of air pollutant emissions across LUKOIL Group (over 75%), mainly due to APG flaring, along with power generating entities burning fuel for power and heat generation.

Key initiatives of the Environmental Safety Program aimed at reducing pollutant emissions include:

- replacement or upgrade of equipment, application of the best available technology at production sites;
- application of emission capture and treatment systems;
- upgrade and construction of new generation capacities in power generating entities with improved automated systems for regulating combustion processes, heat losses and minimization of pollutant emissions.

Gross emissions from LUKOIL Group entities decreased in 2019 by 6.9% (within the boundaries for 2018).

In 2019, there was a significant decline in hydrocarbon emissions across LUKOIL Group within the boundaries for 2018 (by 17.6% compared to 2018), chiefly driven by changes in the calculation of maximum allowable emissions from oil and gas companies in Russia. It was taken into account that a significant part of oil and oil product storage tanks operated without significant changes in the liquid level, thus minimizing the “breathing” of tanks¹.

In addition, emissions of sulfur dioxide by Russian oil and gas production entities dropped by 24.6% due to the commissioning of the gas section of an oil treatment facility at the Vostochno-Lambeyshorskoye field at LUKOIL-Komi in 2018. The field is characterized by high hydrogen sulfide content in formation products.

Gross emissions of pollutants into the atmosphere (net of CO₂) by LUKOIL Group entities, thousand tonnes

	2018	2019
Total emissions		
Within the boundaries for 2018	451.3	420.3
Within the boundaries for 2019, including:	-	428.7
• ISAB	NA	8.3
• Foreign oil product supply entities ¹	NA	0.1
including by pollutant type:		
NO_x emissions		
Within the boundaries for 2018	49.4	47.3
Within the boundaries for 2019, including:	-	49.6
• ISAB	NA	2.3
• Foreign oil product supply entities	NA	NA
SO₂ emissions		
Within the boundaries for 2018	37.5	35.6
Within the boundaries for 2019, including:	-	40.8
• ISAB	NA	5.2
• Foreign oil product supply entities	NA	NA
solid particle discharges		
Within the boundaries for 2018	14.9	15.0
Within the boundaries for 2019, including:	-	15.1
• ISAB	NA	0.1
• Foreign oil product supply entities	NA	0.0
CO emissions		
Within the boundaries for 2018	155.9	153.9
Within the boundaries for 2019, including:	-	154.6
• ISAB	NA	0.7
• Foreign oil product supply entities	NA	NA
hydrocarbon emissions		
Within the boundaries for 2018	73.9	60.9
Within the boundaries for 2019, including:	-	60.9
• ISAB	NA	0.0
• Foreign oil product supply entities	NA	0.0
volatile organic compounds (VOC)		
Within the boundaries for 2018	115.5	105.9
Within the boundaries for 2019, including:	-	105.9
• ISAB	NA	0.0
• Foreign oil product supply entities	NA	NA
emissions of other pollutants		
Within the boundaries for 2018	4.2	1.7
Within the boundaries for 2019, including:	-	1.7
• ISAB	NA	0.0
• Foreign oil product supply entities	NA	NA

Note. Data on LUKOIL Group are published in the Report starting from calendar year 2018 (reporting year).

¹ “Breathing” of tanks means pressure fluctuations inside tanks for oil and oil product storage associated with the inflow or flow of liquid inside the tank (“large breathing”) or change in the ambient temperature (“small breathing”). Changes in pressure inside the tanks affect the volume of vapor emissions of petroleum products.

¹ The data for 2019 represent the sum of data by pollutant types, each with a value less than 0.05.

Gross air emissions (excluding CO₂) LUKOIL Group Russian organizations, thousand tonnes

	2017	2018	2019
Total emissions, including:	502.5	433.3	402.3
• emissions NO _x	49.6	47.1	46.2
• emissions SO ₂	23.0	25.1	22.0
• emissions of solid substances	24.3	14.7	14.9
• emissions CO	216.6	153.9	152.2
• hydrocarbon emissions (including VOC)	187.8	188.3	165.7
• emissions of other pollutants	1.2	4.2	1.3

Specific emissions of pollutants into the atmosphere by Russian entities of LUKOIL Group

	2017	2018	2019
Oil and gas extraction, kg/tonne of oil equivalent in extracted hydrocarbon resources	4.1	3.4	3.2
Oil refining, kg/tonne of refined oil	0.9	0.8	0.9
Petrochemicals, kg/tonne of processed raw materials	1.3	1.1	1.4
Oil product supply, kg/tonne of oil products sold	0.8	0.8	0.7
Transportation, kg/tonne of oil, oil products transported	0.1	0.2	0.2
Power generation, kg/tonne of oil equivalent in consumed fuel	2.6	2.9	2.9

WASTE

Our main approach to industrial waste management lies in applying the most advanced technologies, preventing excessive build-ups of waste at LUKOIL Group entities' facilities, and placing waste at specialized facilities that meet modern requirements.

Most production waste in Russia is made up of drilling cuttings and waste drilling fluids, which are generated during drilling and well operation. The volume of waste generated depends primarily on the scope of drilling and repair works carried out at wells.



IN 2019, THE COMPANY ENSURED COMPLIANCE WITH THE WASTE MANAGEMENT KPI FOR RUSSIAN ENTITIES AS THE VOLUME OF WASTE DISPOSED MATCHED THE VOLUME OF WASTE GENERATED¹. THE AMOUNT OF PRE-PRIVATIZATION IN RUSSIAN ENTITIES WASTE FELL

BY **17%**

Waste management by LUKOIL Group, thousand tonnes

	2018	2019
Waste at the beginning of the reporting year across LUKOIL Group		
Within the boundaries for 2018	956	905
Within the boundaries for 2019, including:	--	910
• ISAB	NA	5
• Foreign oil product supply entities	NA	0
Waste generation volume, total		
Within the boundaries for 2018	1,556	1,747
Within the boundaries for 2019, including:	---	1,783
• ISAB	NA	34
• Foreign oil product supply entities	NA	2
Received from third parties		
Total	NA	5
Amount of waste used, neutralized, and transferred to specialized entities, as well as landfill waste		
LUKOIL Group, including:	NA	1,751
• ISAB	NA	35
• Foreign oil product supply entities	NA	2
Waste at the end of the reporting year		
Within the boundaries for 2018	905	943
Within the boundaries for 2019, including:	--	947
• ISAB	NA	4
• Foreign oil product supply entities	NA	0

Note. Data on LUKOIL Group are published in the Report starting from calendar year 2018 (reporting year).

¹ The calculation of the KPI does not take into account the volume of rock generated during shaft works at LUKOIL-Komi sites and placed at specialized waste dumps.

Waste generation and waste management in Russian LUKOIL Group entities, thousand tonnes

	2017	2018	2019
Volume of Waste generated (excluding waste received from third parties)	1,434	1,529	1,671
Volume of waste used, neutralized and transferred to specialized organizations, as well as landfill waste	1,396	1,582	1,642

Note. Data is provided without rock waste.

Based on the respective environmental hazard classification, most generated waste is of Class 4 (low-hazard) or Class 5 (non-hazardous), and is mostly disposed¹.

The share of hazardous waste (Hazard Classes 1 and 2) that contains substances that are dangerous to human health and which can cause irreparable changes to environmental systems amounts to 0.01% of the total volume of generated waste; such waste is subject to mandatory disposal.

Hazard Class 3 (moderate) waste includes a portion of oil-containing waste (with an oil product content in excess of 15%) that is also subject to disposal. In 2019,

the share of oil-containing waste (oil sludge generated as a result of cleaning of equipment and oil spill sites, Hazard Classes 3 and 4) increased from 13% to 18% compared to 2018 in the overall waste generation structure. This was due to the fact that oil-contaminated soils, which are largely washed at specialized facilities in LUKOIL-Komi and previously were not considered waste, are recorded as waste from 2019 following changes to the regional accounting methodology.

The slight increase in the volume of waste as of the end of 2019 is due to the drilling operations plan: some wells under construction accumulate drilling waste for further disposal.

Waste that is stored long term (596 thousand tonnes) still mainly includes waste activated sludge, which was generated during the Saratovorgsintez plant's wastewater treatment and placed at the deposit site. The site is included in the State Register of Waste Disposal Facilities.

1–5 hazard class waste at Russian entities of LUKOIL Group in 2019, thousand tonnes

	Waste at the beginning of the year, total	Waste generated during the year, total	Waste at the end of the year, total
Total waste across LUKOIL Group	886	1,671	920
including:			
• oil-containing	22	294	20
• drilling waste	108	1,131	148
Hazard Class 1	0.0008	0.0330	0.0020
Hazard Class 2	0.0014	0.0937	0.0043
Share of waste of Hazard Classes 1 and 2	0.0002%	0.0076%	0.0007%
Hazard Class 3 (oil-containing)	23	253	21
Share of waste of Hazard Classes 1, 2, and 3	3%	15%	2%
Hazard Class 4	831	1,287	868
Hazard Class 5	32	131	31

Notes. Most substances categorized as hazardous waste in the international accounting system are contained in waste of Hazard Classes 1 and 2. In Russia, waste of Hazard Classes 1–3 is considered hazardous, the Hazard Class 4 waste low-hazard, and Hazard Class 5 waste non-hazardous. The hazard class is determined based on criteria approved by the Russian Ministry of Natural Resources and Environment.

¹ Here and later, the term “disposal” is used to mean “use, neutralization, landfilling, or handing over to a specialized organization for these purposes.”

The Company applies pitless well-drilling concept in vulnerable natural areas in Russia, according to which generated drilling waste is not stored/landfilled at drill sites, but sent for use or neutralization.

We supervise the quality of waste disposal works carried out by contractors, monitoring their waste-handling

methods, the state of the in-process control system, and the availability of the necessary resources to fulfill contractual obligations.

In order to minimize environmental impact from hazardous waste generation, new waste disposal facilities are being built by Lukoil and existing ones are being modernized.

The new disposal facilities will facilitate improvements to waste management. In 2019, such facilities were built at the Pyakyakhinskoye field in Western Siberia and at the Shchelyayurskoye field in the Komi Republic; a thermal waste treatment plant was purchased for the Stavrolen plant.

PRE-PRIVATIZATION DAMAGE MANAGEMENT

By the time of the privatization of a number of assets in the field of oil production and refining in Russia and Eastern Europe, significant volumes of oil-containing waste (oil sludge in special sludge collectors and evaporation ponds) had been accumulated at production facilities. They are called “pre-privatization environmental damages” in the Company. LUKOIL, at its own expense, disposes of them at most enterprises. As of 2019, such waste had been fully processed at the refinery in Romania, as well as at LUKOIL-Western Siberia and RITEK in Russia.

Oil refinery in Romania

In 2006-2013, around 450 thousand cubic meters of pre-privatization oil waste was disposed of. Contaminated soil was cleaned and removed from the walls and bottom of sludge collectors. Reclamation was carried out at the site of the former facility, grasses and shrubs were sown.

Oil refinery in Bulgaria

The refinery undertook to remedy of pre-privatization oil waste in accordance

with an agreement signed in 2000. Such works are financed by the state in Bulgaria. In 2019 18 thousand tonnes of oil waste were disposed of. This work continues.

Russian refineries

In 2019, work at the Volgograd refinery continued to neutralize pre-privatization oil waste, and 50 thousand tonnes were disposed of. It remains to process around 39 thousand tonnes of waste.

Pre-privatization waste, thousand tonnes

	Waste at the beginning of reporting year	Waste eliminated in reporting year	Waste at the end of reporting year
2018			
LUKOIL Group entities, total, including:	773	107	666
• Russian	319	50	269
• foreign	454	57	397
2019			
LUKOIL Group entities, total, including:	666	69	602*
• Russian	269	51	223*
• foreign	397	18	379

Note. (1)* In implementing the scheduled measures to eliminate pre-privatization damage at LUKOIL-Volgogradneftepererabotka for 2020, the scope of pre-privatization damage was revised as part of a geodesic survey at the end of 2019. Thus, the total pre-privatization damage was changed from 218 thousand tonnes to 223 thousand tonnes. (2) The amount of waste disposal during the pre-privatization period in foreign entities (in Bulgaria) is determined by the financing of the state, which is the owner of the waste in accordance with local legislation.

BIODIVERSITY CONSERVATION

In view of the importance of biodiversity conservation, especially in vulnerable natural areas, the Company has undertaken not to conduct operations

in World Heritage sites and IUCN (International Union for Conservation of Nature) Protected Areas of categories I-IV. At each stage of a project,

we strive to balance any impacts that our operations might have and we implement a variety of projects and activities to preserve ecosystems.

MANAGEMENT OF BIODIVERSITY ISSUES

ELEMENTS OF THE MANAGEMENT SYSTEM	DESCRIPTION	CORPORATE DOCUMENTS
 COMMITMENTS AND PRINCIPLES	We seek to avoid conducting work in habitats of valuable and highly protected plant and animal species or to minimize such impact where it cannot be avoided Our principle is "prevention - mitigation - restoration - compensation."	LUKOIL Group's HSE Policy in the 21st Century approved by Resolution of PJSC LUKOIL Management Committee dated 18 May 2018
 IMPACT ASSESSMENT MECHANISMS	- Assessment of the impact of planned projects on biodiversity is undertaken during the preparation of project documents - Environmental and satellite monitoring is organized	Corporate Standard STO LUKOIL 1.6.9-2019 "Health, Safety and Environment Management System. Pre-project and Project Documentation. Business Case Preparation. General Requirements" 2. Local laws of countries of operation. In Russia, this is performed voluntarily by companies engaged in offshore activities
 RESPONSE MECHANISMS	A center has been set up to deal with the impact of emergencies on animals, birds and flora and to implement measures to rescue them in the Caspian Sea	"Plan for Prevention and Remedy of Animal Habitat Pollution with Oil and Oil Products in the Event of a Spill from LUKOIL-Nizhnevolzhskneft Facilities"
 PROGRAMS, PROJECTS AND INITIATIVES	The Biodiversity Conservation Program is in place for facilities operating in the Arctic zone of Russia. We are guided by the Arctic Council's document "Guidelines for Oil and Gas Companies on the Arctic Shelf"	The Program was approved by Order of PJSC LUKOIL No. 136 dated 23 July 2015. As a follow-up to this Program, action plans on biodiversity conservation have been developed for entities operating in the Arctic region (LLC Varandey Terminal, LLC LUKOIL-Komi, LLC LUKOIL-West Siberia). For entities operating in other regions, biodiversity conservation measures form an integral part of the Environmental Safety Program.
 COLLABORATION	Russia: joint projects with WWF Russia, nature reserves and specially protected areas	Cooperation agreements
 FURTHER INFORMATION	The results of environmental monitoring have been published annually on the corporate website since 2003	



Our goal is to preserve the diversity of natural biosystems in the regions where the Company operates and to ensure that they are treated with due care, so that the ability to regenerate is not threatened.

In 17 years of observation, there have been no significant impacts from activities of the Company's facilities on the marine environment that would require response measures.

LAND REMEDIATION

The remediation of oil-contaminated land is carried out in all areas of the Company's operations. In 2019, 56.6 hectares of land were handed over to the State Commission (in 2018: 50.3 hectares), where all stages of rehabilitation had been completed; as a result, the content of oil products was reduced to the required level.

The remediation comprises the following stages:

- technical (collection of as many pollutants as possible from the surface, agro-technical manipulations, application of oil-oxidizing bio-preparations, loosening for better aeration)
- biological (sowing seeds or seedlings, fertilizing).

If the terrain implies washing out and further spreading of residual contamination, the contaminated layer is removed and taken to specialized bioremediation sites, and clean soil is brought to the reclaimed site where biological remediation is carried out.



Biodiversity conservation activities:

- rehabilitation of oil-contaminated land
- "zero discharge" when working at offshore facilities
- release of fish fry into rivers as a compensation for the impact on aquatic bioresources
- building fish protection systems near HPPs and installation of bird protection devices on power lines
- gardening and landscaping at production sites
- clearing the channels of small rivers, including at underwater crossings of pipeline systems
- garbage collection activities in most regions of operation

BIODIVERSITY CONSERVATION PROJECTS

SAIGA ANTELOPE CONSERVATION PROJECT IN RUSSIA

In 2019, LUKOIL became a member of the Working Group of the Ministry of Natural Resources and Environment of the Russian Federation for the implementation of the federal project "Conservation of Biological Diversity and Development of Ecotourism."

The Company initiated round tables on the conservation of saiga, one of the oldest representatives of fauna. At the end of the events, a decision was made to launch a new project jointly with the Ministry. It will be executed in the "Black Lands" nature reserve in the Republic of Kalmykia (which has the status of a world-class biosphere reserve) and the "Stepnoi" reserve in the Astrakhan Region.

LUKOIL has a longstanding working relationship with these reserves, providing support as part of the Competition for Social and Cultural Projects. Thanks to several grants, the level of poaching in Kalmykia has been reduced, in particular through educational events for residents.

In 2020, a saiga conservation action plan will be elaborated and incorporated in the Environmental Safety Program. A long-time partner of the Company - WWF-Russia - will join in the implementation of the plan.

ANIMAL AND BIRD REHABILITATION FACILITY IN ASTRAKHAN

LUKOIL-Nizhnevolzhskneft is developing oil and gas fields in the northern sector of the Caspian Sea. Despite long-term human influence, the Caspian region still has one of the most valuable ecosystems in the world, and the marine environment and coastal areas exhibit high biodiversity. There are also valuable wetlands in the Volga River delta in the northern Caspian Sea.

In order to mitigate negative impacts on animals and birds in production areas, a rehabilitation facility for animals affected by oil pollution was set up with LUKOIL support. The facility is located in the delta of the Volga River at the production base of the Astrakhan Directorate of Specially Protected Areas. It has a mobile rescue station, a receiving and cleaning station for contaminated animals and birds, and enclosures for keeping them. Trained employees of the facility take no more than three hours to get to an animal or bird that needs help.

Rescue operations are managed by the Animal Rescue Group, which is part of LUKOIL-Nizhnevolzhskneft Emergency Commission. Since its creation, the facility has been used solely for training purposes, as no rescue operations have so far been required.

BIODIVERSITY CONSERVATION PROGRAM IN UZBEKISTAN

LUKOIL Uzbekistan Operating Company LLC operates in the Republic of Uzbekistan under production sharing agreements for the Kandym group of fields, the Khauzak-Shady and Kungrad, as well as for sites in the South-West Gissar and Ustyurt region.

Production facilities are located in the desert zone and in foothill areas, in close proximity to a state ornithological reserve (Dengizkul Lake, a water object on the Ramsar Convention list) and the Khoja-Davlet ornithological territory.

Over the seven years of LUKOIL operations in these territories, programs have been implemented to preserve the ecosystem of Lake Dengizkul (initially, the action plan was developed in 2012 and revised and updated in 2016) and the Khoja-Davlet territory (since 2016).

Ongoing ornithological monitoring is carried out with the participation of international experts: 40 observation points along the lake banks have been set up; permanent power transmission line routes and the Khoja-Davlet territory inspection have been determined. The monitoring process involves six stages throughout the year based on the biological cycles of bird life. The developed methodology is coordinated with the local State Biological Control Service of the State Committee for Nature Protection of Uzbekistan¹. The distribution, characteristics and condition of bird habitats have been studied.

Bird protection devices are installed on power transmission lines, their functioning, as well as the integrity of markers, information boards and warning signs are checked.

Educational activities are organized for staff and local residents (stalls are set up, information campaigns are held), and access to the territories adjacent to the production facilities is restricted to the staff and contractors.

Work is carried out with contractors, bird habitat protection requirements are included in contracts, briefings are held, and biodiversity conservation issues are discussed at workshops.

The Company works with a local eco-center Jeyran where animals in need of help are sent.

Upon the completion of construction works, the biological rehabilitation of disturbed lands was performed at all sites, and saxaul and perennial grasses planted.

In the opinions of ornithologists, Lake Dengizkul retains its importance as a habitat for rare species listed in the Red Book of the Republic of Uzbekistan, and an area where waterfowl rest during migration (over 20 thousand birds)². LUKOIL's biodiversity conservation program in these territories has helped mitigate the impact of production activities on local fauna. The survey results are annually presented to stakeholders and the State Committee for Nature Protection of Uzbekistan.

¹ In January 2019 the State Committee for Nature Protection of Uzbekistan was reorganized into the State Committee of the Republic of Uzbekistan on ecology and environmental protection.

² Endangered species include the Dalmatin pelican, the stiff-tailed duck, the white-eyed pochard, the marbled duck, the velvet scoter, the pale harrier, the imperial eagle, the houbara bustard, the black-tailed godwit and curlew, the white pelican, the little cormorant, the little egret, the mute swan, the spoonbill, the glory ibis, the flamingo, the steppe eagle, and the white-tailed eagle.

OUR EMPLOYEES



**Anatoly
Moskalenko**

Vice President
for Human Resources
Management
and Social Policy
of PJSC LUKOIL

Q WHY DOES THE COMPANY SEE THE INTRODUCTION OF THE LEADERSHIP PHILOSOPHY AS A KEY STEP, AND HOW DOES THIS APPROACH HELP ADAPT TO EXTERNAL CHANGES?

A Today, the oil and gas sector is facing new challenges that can significantly change professional areas of activity and, therefore, specifics of HR management and social work.

In 2019 the Company launched a personnel performance and efficiency management system, based on the principles of modern leadership philosophy. This system introduces new approaches that reshape the role of staff in production and management processes. We already have a number of project teams working in the Exploration and Production business segment, and a digital environment is being created to facilitate their coordinated activities. Once we have achieved sustained results in this regard, we will gradually roll out the approach across other business segments.

Q WHAT DIGITAL TECHNOLOGIES ARE BEING ALREADY USED IN HR MANAGEMENT, AND HOW EFFECTIVE HAVE THEY BEEN IN THE CURRENT SITUATION?

A Significant efforts have been taken to implement digital technologies, which makes it possible to rapidly and efficiently organize personnel management activities in various conditions. In particular, this includes, when necessary, providing remote access to corporate systems, and automated workplaces, which creates greater Company flexibility and mobility and accords with international best practices.

In order to boost the efficiency of employees' work and to encourage them to use the distance learning system, special courses are developed and training events held to enhance industry-specific knowledge, and improve the knowledge of foreign languages and management skills. Thematic online trainings and webinars are regularly held on topical issues such as career building, negotiations, time management, motivation, increasing psychological resilience, and stress management.

The Corporate Knowledge Management System is developing actively, allowing employees from various regions to share best practices. The Company has information services offering necessary and beneficial information to employees.

In addition, 2019 saw the development and deployment of AR LUKOIL, a mobile app facilitating training in an augmented reality mode and corporate competitions, where each Company employee can participate.

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KEY CHANGES AND RESULTS IN THE REPORTING YEAR

 OVER 258 THOUSAND PERSON-COURSES OF TRAINING WERE COMPLETED	 THE AVERAGE SALARY AT RUSSIAN ENTITIES IN SIGNIFICANT REGIONS OF OPERATION WAS AT LEAST 1.5 TIMES HIGHER THAN THE AVERAGE SALARY IN THOSE REGIONS
 KEY MANAGEMENT PERSONNEL ARE BEING DEVELOPED	 EMPLOYEES WERE HIRED IN TWO NEW COUNTRIES: MOROCCO AND NIGERIA

CONTEXT

According to International Labor Organization reports¹, the world of work is currently undergoing profound changes. Globalization and market liberalism in the late twentieth century, especially in the mining industry, fostered favorable economic conditions and employment structures in many countries. However, digitalization, changing demographics and climate change, and a transition to a green economy are altering the fundamentals of the labor market. The following trends have been cited as being the most important.

Automation and robotics reduce the need for labor as production grows, and increase how selective employers can be when it comes to the hiring and skill training of employees. As a result, various forms of part-time employment are becoming more widespread. This can have both positive consequences for employees (in the form of a better work-life balance) and negative

ones (lower incomes, no full employment guarantees, etc.). Therefore, an important task for employers is to help employees overcome the challenges inherent in transitioning to new work conditions.

The ILO Global Commission on the Future of Work has created a human-centered agenda that highlights three main goals: increasing investment in people's skills, strengthening labor guarantees and expanding social dialogue, and increasing investment to ensure decent and sustainable working conditions. LUKOIL supports these objectives and has many programs to meet these goals.

MANAGEMENT SYSTEM

ELEMENTS OF THE MANAGEMENT SYSTEM	DESCRIPTION	CORPORATE DOCUMENTS
 GOALS, PRINCIPLES	The main task is to create a management system that will give the Company the stable status of "employer of choice" in the labor market.	The HR Policy of OJSC LUKOIL approved by Minutes No. 15 of the Management Committee of OJSC LUKOIL on 19 May 2013
 PRIORITIES/ CORPORATE STANDARDS	The main principles in the area of employment relations are: • respect for human rights • equal rights and opportunities for employees • compliance with statutory requirements • respect for the culture and customs of countries where we operate • cooperation with trade unions and employees	The Code of Business Conduct and Ethics approved by Minutes No. 17 of the Board of Directors of PJSC LUKOIL on 11 December 2018 The Corporate Culture Rules approved by Minutes No. 31 of the Management Committee of OJSC LUKOIL on 27 December 2010 The Social Code of PJSC LUKOIL approved by Minutes No. 16 of the Board of Directors of PJSC LUKOIL on 24 October 2017
 KEY PERFORMANCE INDICATORS	Labor productivity	A set of KPIs approved by Minutes No. 26 of the Management Committee of PJSC LUKOIL on 14 December 2015
 TARGETED PROGRAMS, PROJECTS AND INITIATIVES	The main areas of social policy: • the remuneration and incentive system • training • social support • working with young professionals and employees	Programs in all the areas have been approved
 FURTHER INFORMATION	More details are available on our corporate website: 	The Social Code of PJSC LUKOIL: 

¹. Sources: Work for a brighter future. The Global Commission on the Future of Work. Safety and Health at the Heart of the Future of Work. ILO, 2019.

LEADERSHIP PHILOSOPHY

The first quarter of the 21st century saw major changes in the Company's external and internal environment. According to experts, the dominant trends are economic and technological change, increased digitalization, and changes in the workforce structure. The internal environment is also evolving: generations of employees are changing, new skills and aptitudes are needed, and younger workers are putting forward new ideas and inventions. To ensure that the Company adapts as much as possible to the new reality, we are making improvements to our corporate culture (values and conduct), as well as to the system of relations in place between employer and employees.



LEADERSHIP DEVELOPMENT IS A KEY GLOBAL HR TREND.

The President of PJSC LUKOIL, Vagit Alekperov, has decided to begin implementing leadership and engagement tools to facilitate a reliable and sustainable future for LUKOIL. Forward-looking changes are designed to ensure that the Company maintains its leading position in the industry.

This will require changes in the system used to make decisions, people management, training, motivation, and overall performance and efficiency assessments. The new approach places a greater emphasis on the individual as the key driver behind achievement of the Company's strategic goals. Goal management, effective and inspiring interaction between managers and employees, constant feedback, and a modern system of productivity and performance management facilitate high motivation and the attainment of personal and team results. All these factors determine the main changes being made to the management approach.

The first step has been to elaborate the corporate principles and approaches for working with project personnel in the Exploration and Production business segment. This group of employees ensures that effective solutions are found to engineering and technical problems, while achieving operational and investment efficiency when implementing major and high-priority projects, both in Russia and abroad. Thanks to the project teams, the risk of making poorly grounded decisions is lowered, and Company's and global experience and best practices are taken into account.

The main achievement in 2019 was to establish and improve the regulatory framework for working with project personnel. A unified approach to creating project teams was established, a new planning system was developed, and a set of competencies and a system of employee development, assessment, and remuneration (incentives) were elaborated. Training programs were developed for employees

in the project personnel talent pool. Our corporate knowledge system provides for accumulation of project experience and maintains a database of the lessons learned from implemented projects.

A new approach to the operation of the management succession system is also being elaborated. It is planned that career development opportunities will be provided to each employee and that the positive dynamics of an employee's digital productivity and performance rating will serve as one of the main factors in career development.

A new corporate portal is being created, based on social networking principles. The portal provides a single information space for employees and simplifies and speeds up communication and cooperation between project teams and expert and interdisciplinary groups. A transition to convenient services will reduce the cost of routine operations and enable employees to tailor their digital workplace to individual needs.

The system of managing employee productivity and performance based on the new principles of modern leadership philosophy is reflected in our single corporate portal, as well as analytics on key business performance indicators for each LUKOIL Group entity. Through integration, we facilitate personnel management and development based on data collected for all types of work performed by employees in a single information space. This in turn will make it possible to more effectively develop each employee and boost the efficiency of assessing their contribution to the achievement of strategic goals.

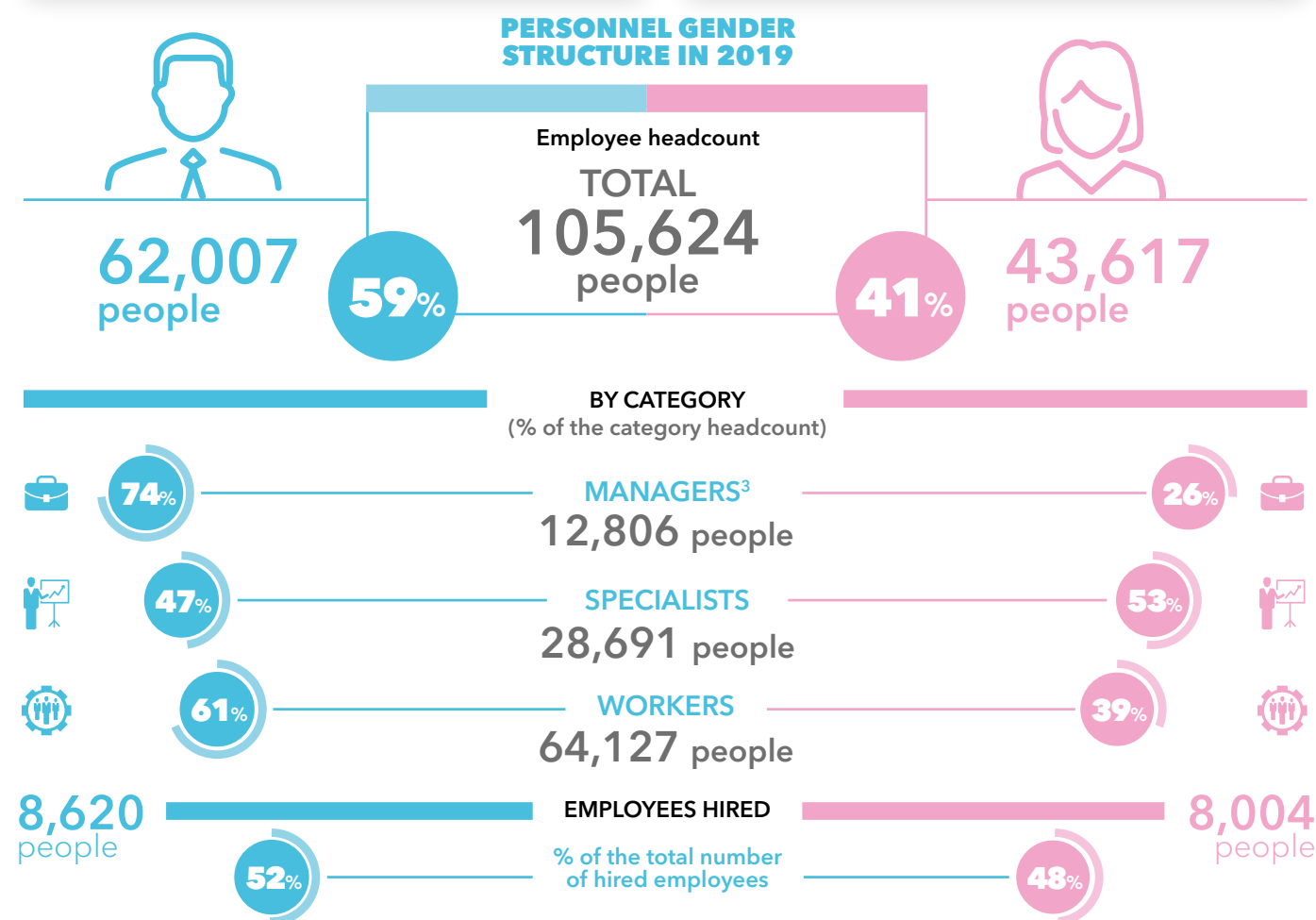
PERSONNEL CHARACTERISTICS

AS OF 31 DECEMBER 2019 LUKOIL GROUP
ENTITIES EMPLOYED OVER

105 thousand people¹,

and the vast majority of employees worked under permanent employment contracts and full-time. The personnel structure has been stable in the past three years in terms of employee categories and age².

There is no gender discrimination in the Company. Despite the specifics of the oil and gas industry and the traditional prevalence of men working in it, LUKOIL has maintained a balanced gender structure for many years. When hiring employees, we provide equal opportunities to men and women: the structure of newly hired employees in 2019 reflects a parity of results in this area.



Over half of all employees (around 60%) are employed in the Refining, Marketing and Distribution business segment and more than a third (35.6%) work at exploration and production entities. 13.7% of employees work on a rotational basis.

In 2019, the turnover rate of LUKOIL Group decreased by 0.3 p.p. compared to 2018. For foreign entities the turnover rate remains relatively stable for the period between 2017 and 2019 (11.7% in 2019). In Russian entities some growth in 2018 was due to the reorganization of the Oil

Product Supply in Russia business sector; after 2018 the indicator began to decline (turnover rate was 6.6% in 2019).

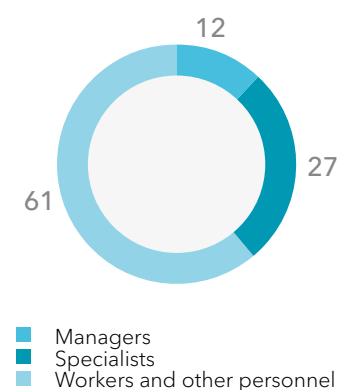
¹ This indicator reflects employee headcount; the average headcount was over 101 thousand employees.

² From this point onward the calculation is based on the number of employees as at 31 December in the reporting year (unless otherwise indicated).

³ The "Managers" category includes: CEO of a LUKOIL Group entity, Deputy Heads, Chief Engineer, Chief Accountant, Head of a branch, TPU, or another standalone business unit, other managers.

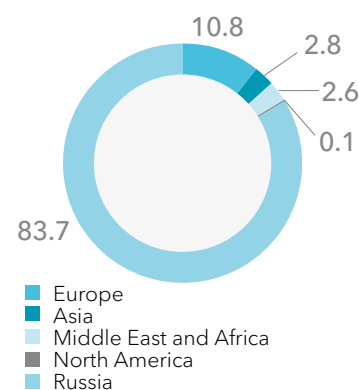
CHARACTERISTICS OF PERSONNEL IN 2017-2019

Breakdown of LUKOIL Group employees by category, %



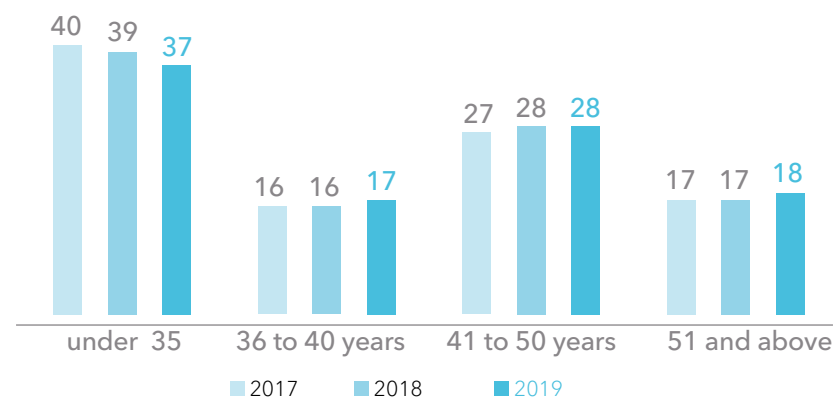
Note. The breakdown of employees by category did not change over the period from 2017 to 2019.

Breakdown of LUKOIL Group employees by region, %

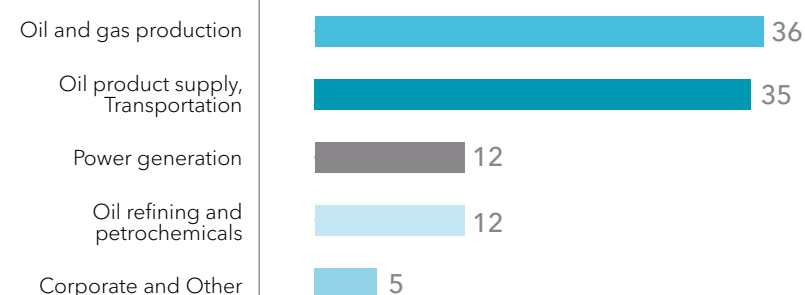


Note. Data are based on the number of employees as at 31 December 2019.

Breakdown of LUKOIL Group employees by age, %



Breakdown of LUKOIL Group employees by type of activity, %



Note. The Oil product supply, Transportation category also includes other organizations from the Refining, Marketing and Distribution business segment.

LUKOIL Group employee headcount and turnover

	2017	2018	2019
Headcount as at 31 December each year, people	107,405	105,991	105,624
Average headcount, people	103,647	102,508	101,374
Turnover rate, %	6.7	7.8	7.5
Number of new hires, people	20,101	26,358	16,624

Note. The formula for calculating the turnover rate is given in [Appendix 7](#).

EMPLOYMENT AND DIVERSITY

We endeavor to apply uniform principles and approaches to working with our employees in all countries and regions where we operate, taking into account local specifics and features. The principles and standards set forth in our HR policy and other local regulations are mandatory for all LUKOIL Group entities.

In local labor markets LUKOIL provides job opportunities for suitably qualified candidates, including for executive positions. Our basic approach is to employ the best professionals, while in foreign countries we strive to employ as many local professionals as possible, and provide them with employee training where necessary.

If personnel with the necessary qualifications and capabilities are not available on local markets, Russian employees are appointed to managerial positions to promote the same corporate

culture throughout LUKOIL Group and to expand their capabilities by gaining professional experience in international projects.

The Company has a pool of employees who can be rotated. Managers and specialists with the necessary experience and knowledge to be able to successfully implement projects are included in this pool and can be seconded to various LUKOIL Group entities and projects to help achieve respective corporate goals. Thus the risk of a loss to efficiency is mitigated and the need for highly qualified and managerial personnel is promptly satisfied, regardless of the situation on local labor markets. At the same time, the opportunity to work in different business and cultural environments is a motivation for employees who value diversity.

We provide equal career opportunities for all employees. The Company regularly monitors gender diversity across various categories of personnel. In 2019, women held 26% of management positions. The share of women holding management positions at all levels was 8% of the total number of female employees. In addition, we respect the wishes of our employees to achieve a work-life balance: for example, in LUKOIL Group entities parental leave is granted to both women and men. We also encourage employee initiatives to set up groups according to their own interests; for example, there has been a women's club at the refinery in Nizhny Novgorod since 2013.

Information about local managers in foreign LUKOIL Group entities

	2017	2018	2019
Senior managers, people	87	89	89
• including locals	28	28	29
Share of local senior managers, %	32	31	33

Notes. (1) Senior managers include the CEO (Managing Director / General Director) and their deputies for functional areas. (2) Locals mean employees that are permanently registered in or are citizens of foreign countries. (3) Data are given for significant regions. For a definition of significant regions see [Appendix 7](#).

Share of female managers in the total number of managers at corresponding level in LUKOIL Group entities, %

Employee category	2019
CEO of a LUKOIL Group entity	1.1
Deputy Heads, Chief Engineer, Chief Accountant	17.5
Head of a branch, TPU, or another standalone business unit	4.5
Head of structure unit	26.3

SOCIAL POLICY

We strive to maintain an attractive employee remuneration system so as to facilitate social stability and to enhance the quality of life of our employees and their families. Company obligations which supplement

those of the laws of the Russian Federation and international standards are set out in the Social Code of PJSC LUKOIL. Services under employee social programs are provided in both Russian and foreign entities,

and employees can participate in these programs irrespective of whether they are employed full or part-time.

LUKOIL Group staff costs, RUB million

	2017	2018	2019
Total, including:	142,141	145,706	147,284
• payroll	132,022	136,475	138,180
• social benefits and payments, social support for employees	9,294	8,403	8,125
• training	825	828	979

Note. For a definition of payroll see [Appendix 7](#).

Scope of services provided under LUKOIL Group social programs

Indicator	2017	2018	2019
Total for LUKOIL Group, including:	468,150	430,323	456,495
• Health protection, services	325,711	286,746	322,795
• Social support for families with children, services	65,311	62,241	59,480
• Non-state pension coverage, people	12,453	12,263	12,115
• Support for pensioners, people	43,281	44,990	42,825
• Other, services	21,394	24,083	19,280
Specifically for Russian entities, including:	402,709	357,277	387,154
• Health protection, services	276,063	229,781	267,830
• Social support for families with children, services	61,461	58,664	55,308
• Non-state pension coverage, people	5,795	6,363	6,345
• Support for pensioners, people	43,116	44,884	42,689
• Other, services	16,274	17,585	14,982

Note. A service provided to an employee under a social programs constitutes the provision of various types of social assistance and support at the employee's request in kind (e.g. vaccinations) or in cash, to pay for the service or to compensate for its cost.

WAGES AND SALARY

In Russia, the minimum subsistence level is regulated by law, as is the minimum wage and how often it is paid. LUKOIL enters into voluntary collective agreements governing minimum wage rates, bonuses, and other types of remuneration. Such contracts cover 96% of employees in the Group's Russian entities.

Under an agreement between PJSC LUKOIL and trade unions, the minimum rate of pay is at least equal to the minimum subsistence level for the working population. Rates of pay depend on performed duties, the complexity of work tasks and level of responsibility, and are established for each employee taking into account their education and practical experience.

In 2019 the minimum rate of pay in significant regions of operation in Russia was in line with or exceeded the regional minimum wage. Minimum rates of pay are the same for men and women.

The initial salary at LUKOIL Group foreign entities is at least equal to the minimum wage rate established by the labor laws of a country where LUKOIL Group operates, collective agreements, and/or local regulations.



**IN 2019,
THE AVERAGE SALARY
IN LUKOIL GROUP'S
RUSSIAN ENTITIES
IN SIGNIFICANT
REGIONS
OF OPERATION WAS
AT LEAST**

1.5 TIMES

**HIGHER THAN
THE AVERAGE SALARY
IN THE SAME REGIONS.**

Average salary in 2019 in Russia, RUB

Significant regions of operation	Average salary at LUKOIL Group's entities in Russia	Average salary in the region (Jan-Dec 2019)
Astrakhan Region	63,877	35,792
Volgograd Region	74,919	32,737
Kaliningrad Region	89,645	34,357
Krasnodar Territory	61,633	36,155
Nizhny Novgorod Region	82,664	35,692
Perm Territory	83,730	38,562
Komi Republic	112,556	53,162
Saratov Region	57,996	28,503
Stavropol Territory	60,614	31,867
Khanty-Mansi Autonomous Area – Yugra	114,185	74,525

The employee incentive system in Russian entities also includes benefits and compensation established under an agreement between the employer and the trade union,

collective agreements, and other local regulations. A significant part of benefits and compensations is geared towards enhancing the quality of life of our employees through maintaining

their health, providing support to them and their families, and offering them housing assistance. Social support is also provided to former employees who have retired from the Company.

VOLUNTARY HEALTH INSURANCE

Voluntary health insurance programs cover over 90% of employees at Russian entities. Employees can at their own expense widen the coverage of health insurance programs to meet their specific needs.

HOUSING PROGRAM

The housing program is implemented in accordance with the Basic Housing Policy of LUKOIL Group and is aimed at providing housing to production personnel (coming from other regions with a job offer and young professionals).

The Company also helps employees in this area by partial payment of interest on bank loans. In 2019, 1.4 thousand employees participated in the program.

PENSION BENEFITS

Russian entities finance a corporate-defined pension plan that covers the majority of employees. One type of plan is based on the number years of service to the Company, the salary level as of the end of 2003, and any awards received during the entire period of employment. The other type of pension plan is calculated in proportion to the salary level. These plans are financed solely by LUKOIL Group entities. Also, employees have an opportunity to make pension savings with the Company's

participation (up to 4% of employees' annual salary). JSC Non-State Pension Fund Otkritie manages the pension plan assets of LUKOIL Group entities and makes pension payments.

Employees of foreign entities are provided pension benefits in line with the laws of the country of operation as well as the local regulations of entities. Some pension plans are financed solely by employers, while others are based on contributions from both employees and employers.



43.6
THOUSAND
EMPLOYEES
FROM THE GROUP'S
RUSSIAN ENTITIES
PARTICIPATE
IN THE JOINT
PENSION PROGRAM.

Pension benefits and pension plans

	2017	2018	2019
Pension liabilities, LUKOIL Group, RUB million	10,367	8,910	12,544
Number of former employees receiving a corporate pension, in Russia, people	46,294	49,441	52,854
Average non-state pension level in Russia, RUB	2,240	2,272	2,134

TRAINING AND DEVELOPMENT

Developing human potential is a long-term priority of the Company's HR Policy. Our corporate training system is focused on the Company's strategic plans and its need for employees with certain

qualifications and competencies. Training programs serve as a tool for improving productivity, quality, and safety of labor and for minimizing risks associated with uninformed actions of employees.

TRAINING PROGRAMS

Our training system deploys a wide range of tools and methods to train employees, including full-time study at state educational institutions and private centers, corporate professional development programs, corporate internships and training courses, etc. In addition, the Company uses corporate trainers and mentors. Both training and mentorship methods are used when introducing new management approaches, and also serve to foster a good mutual relationship with employees.

Employees can submit a training application to their line manager. After approval under established procedures, the application is incorporated into the Personnel Training Plan.



In order to further improve the system in place for continuous corporate training, the Company plans to:



Develop criteria for organizing employees into groups for training and development purposes



Ascertain the professional, technical, managerial, and behavioral requirements that are common to these groups



Identify training and development needs



Elaborate an integrated corporate training and development program for various groups of employees

Employee training at LUKOIL Group entities

	2017	2018	2019
Number of trained employees, people	70,183	74,684	78,026
Amount of training, person-courses	193,761	243,467	258,728
Average number of training hours per trained employee, hours	NA	NA	84
Average annual training costs per trained employee, RUB	NA	NA	12,548

Note. (1) The growth in training in 2018-2019 was due to the organization of mass training in civil defense and emergency protection and the implementation of corporate and compulsory training programs on occupational safety and information security. (2) The average number of training hours per trained employee = Total number of hours of training events held at Russian and foreign entities / Total number of employees that received training in the reporting year. Average annual training costs per trained employee = Total costs to train employees that received training in the reporting year / Total number of employees that received training in the reporting year.

DISTANCE LEARNING



IN 2019, THE TOTAL
NUMBER OF TRAINING
HOURS USING DISTANCE
LEARNING PROGRAMS
WAS MORE THAN

2 MILLION.

In 2019 our corporate Distance Learning System (DLS) marked its 15th year. Over these years, it has been transformed from a service providing a number of online courses into a comprehensive individualized learning system. Today, the DLS is an efficient and cost-effective training tool covering a wide range of employees and a variety of educational programs.

In 2019 employees of 59 entities of LUKOIL Group completed more than 140 thousand person-courses in a distance learning format.

The main goal of the DLS is to ensure that employees have the required level of knowledge. This goal is achieved through training and communication, assessment, and testing. The DLS is used to achieve large-scale training objectives, to test employee knowledge for compliance with corporate and statutory requirements, and to develop professional and managerial competencies, as well as the personal effectiveness skills of employees.

MANAGEMENT TALENT POOL

The Company is constantly updating the reserve pool of talent, which consists of the most experienced and promising employees. All workers of the Company have equal opportunities to be credited to the pool, provided that they perform professional duties at the appropriate level systematically. An individual development plan is elaborated for each employee included in the pool in order to gain the necessary competencies.

To create the pool of executive candidates capable of taking up leadership positions in the Company, management succession planning is carried out. This process includes the following steps:

- Determining the qualities, characteristics, and competencies of future managers, based on the strategic needs of the business;
- Identifying employees that have high leadership potential, and conducting a comprehensive assessment of their skills;
- Preparing tailored programs for employees, including structured training, internships, rotations, assignments to special projects, and mentoring by a senior employee (top manager).

COMPETENCY CENTERS

In accordance with Federal Law No. 238-FZ dated 3 July 2016 "On Independent Appraisals of Competencies" and a related decision from the Company's President, in 2016 the Center for Assessment of Competencies was established, and in 2017 it was authorized to conduct independent assessments by the Council on Professional Competencies in the Oil and Gas Complex. The independent assessment of employee capabilities is carried out for key professions and positions. Professional exams are administered by qualified experts who confirm the professional level of employees or identify gaps in their knowledge, skills, and capabilities, including in the area of industrial and occupational safety.

Based on the results of these exams, tailored recommendations are elaborated to prepare targeted training programs. Due to the special training sites now established in the regions, the training of personnel has become practice-oriented.

In 2019, over 2 thousand people (and more than 3 thousand in the space of two years) from production, refining, and distribution organizations took part in such assessments. The assessment covered the following professions: oil and gas production operators, process unit operators, and commercial operators¹. In September 2019, the Company began to assess the capabilities of specialists in oil and gas refinery processing, the maintenance and repair of refinery equipment, and field geology.

Also, in 2019 PJSC LUKOIL's Working Group on Development of the Corporate System of Professional Competencies analyzed new and updated professional standards to ascertain whether their application was mandatory: 40 standards turned out to be mandatory and 160 voluntary. Lists of respective standards were sent to Russian LUKOIL Group entities for future reference.

¹ In addition to LUKOIL Group's employees, in 2019 two candidates from external organizations took part in the assessment.

POLICY ON WORKING WITH YOUNG PROFESSIONALS AND YOUNG EMPLOYEES

Working with young employees and professionals is an important component of the Company's HR Policy. It represents a system of measures aimed at recruiting young professionals and fostering the conditions and opportunities that will allow them to achieve successful

and effective personal fulfillment. These measures include internships for students at LUKOIL Group entities and mentorship¹, initiatives that facilitate the continuity of professional experience, best manufacturing traditions, and the corporate culture. Research and technology competitions

and conferences for young professionals are held annually. Councils of young professionals have been established to help young people adapt to working conditions.

Indicators related to working with young employees and professionals, people

	2017	2018	2019
Number of young employees ²	42,772	41,174	39,179
Share of young employees in total employee headcount, %	40%	39%	37%
Number of young professionals	1,945	1,639	1,423
Young employees recruited, including:	12,125	14,624	9,427
• young professionals	706	589	631
Number of students studying under agreements with LUKOIL Group entities	295	173	281

Note. The decline in the total number of young employees aged under 35 and in the share of young employees in total headcount is due to employees exceeding the age threshold for the young employee category and an increase in the retirement age in Russia beginning in 2018.

¹ The mentorship procedure is described in the Regulations on the Induction of New Employees at LUKOIL Group Entities approved by a Resolution of the Management Committee of OJSC LUKOIL on 15 December 2008 (Minutes No. 33). The Regulations establish the procedure for organizing and holding induction events for new employees at LUKOIL Group entities.

² Young employees are employees of PJSC LUKOIL and LUKOIL Group entities under 35 years of age, including young professionals. Young professionals are employees aged under 30 who have a higher or secondary vocational education and who began working at the Company in positions related to their education, including in manual jobs, within six months after graduation or within three months after completion of military service in the Armed Forces of the Russian Federation.



SOCIETY



Gleb Ovsyannikov

Head of Public Relations Department of PJSC LUKOIL

Q HOW DO THE REGIONS BENEFIT FROM THE COMPANY'S SOCIAL PROGRAMS?

A The key priority of our external social policy is to help people and to improve the living standards in the cities where we operate. In order to make our social investments as effective as possible, we coordinate efforts with residents and regional leaders, combining our plans with the tasks of regional policies. This is how new infrastructure facilities are created, which will shape cities of the future.

For example, in 2019 it was decided to open a branch of the Perm National Research Polytechnic University in Kogalym (Western Siberia). So far, thanks to LUKOIL's support, a branch of the Maly Theater has been opened in the city, new educational institutions are up and running, and a sports training center will be built. Thus, this oil mono-city is gradually becoming a cultural, scientific, and educational center within the Khanty-Mansi Autonomous Area - Yugra that is attractive to tourists. We believe that such changes are fully in line with the sustainable development objectives of the regions.

Q TO WHAT EXTENT IS THIS APPROACH IN LINE WITH GLOBAL TRENDS AND THE EXPECTATIONS OF STAKEHOLDERS, INCLUDING ABROAD?

A Our Company demonstrates a high level of corporate social responsibility in all the regions where we operate globally. We feel that requirements for companies are currently growing, and demands from society increasingly concern not so much isolated, one-time actions, but rather complex policies aimed at achieving specific results. We need to try to take into account how things might develop over several decades. This is exactly the approach enshrined in the principles of sustainable development being adopted by all major companies.

An external social policy is an important part of our sustainable development activities and is implemented taking into account the global challenges the Company faces. We actively cooperate with stakeholders working at the United Nations, European Parliament and European Commission platforms, and we participate in industry and environmental associations and engage with well-known non-profit organizations. We discuss at international level a range of topical issues related to climate change; the condition of the environment, seas, and oceans; health care; and support for indigenous peoples. LUKOIL will continue to seek to make progress in all these areas while at the same time maintaining a responsible approach to business.

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SUPPORTING INDIGENOUS MINORITIES OF THE NORTH

KEY CHANGES AND RESULTS IN THE REPORTING YEAR



**LARGER SALES
OF PRODUCTS
WITH IMPROVED
ENVIRONMENTAL
CHARACTERISTICS**



**GREATER LEVELS
OF CUSTOMER
SATISFACTION**



**TOTAL EXTERNAL SOCIAL
SUPPORT EXPENSES
AMOUNTED TO**

RUB 9.2 BILLION



**OVER
190
VOLUNTEER EVENTS
HELD BY LUKOIL YOUNG
SPECIALISTS**



CONTEXT

Meeting challenges at the level of cities and small communities is an important aspect of achieving the UN Sustainable Development Goals. Communities have different priorities, depending on their specific circumstances; some pay greater attention to environmental protection, while others are more interested in addressing social issues.

Experts have identified¹ several 'megatrends' that will affect the future of cities and territories, including rising average age

of the population, increased migration processes, digitalization, climate change, and growing urbanization.

The challenges that need to be addressed at the local level are complex. Promising strategies in this regard include raising living standards while at the same time reducing the environmental footprint, improving municipal administration and land-use planning, solving the garbage disposal problem, and develop green infrastructure.



Source: OECD Roundtable
on Cities and Regions
for the Sustainable Development
Goals, 2019

PRODUCT QUALITY AND CUSTOMER RELATIONS

LUKOIL Group entities produce a wide range of products for various industries and vehicle owners in Russia, Europe, Asia, and the Americas. Our priorities are focusing on customer expectations,

developing and launching new products with enhanced operational and environmental properties, and continually improving quality management approaches. We make great

efforts to get feedback from our clients on the quality of our products and related services. LUKOIL filling stations have a loyalty program for customers.

Sales of fuel products and lubricants

Type of product	2017	2018	2019
ECTO brand fuel, thousand tonnes	8,554	9,603	9,022
Bunker fuel, thousand tonnes	4,539	4,742	4,269
Aviation bunker fuel, thousand tonnes	3,238	3,198	3,357
Branded oils (premium group), thousand tonnes	270	258	254
Biofuel blends*, million liters	4,174	6,515	7,093

Note. *Allowing for a motor gasoline density of 0.755 kg/L and a diesel fuel density of 0.845 kg/L. Biofuel blends are blends of motor gasolines and ethanol (up to 10%) or diesel fuel and fatty acid methyl esters. These products are sold in European countries (the largest volumes, in excess of 1,000 million liters, are sold in Belgium, Romania, Bulgaria, and Turkey).

MANUFACTURING AND SELLING PRODUCTS WITH ENHANCED PROPERTIES

LUKOIL-branded products have enhanced properties that enable lower fuel consumption and reduce the content of hazardous substances in exhaust

gases. The use of new and innovative products fosters improvements in safety and reduces negative environmental impacts on the customer side.

Share of products with enhanced properties, %

	2018	2019
Share of ECTO branded fuels (motor gasoline and diesel) in total retail sales of petroleum products in Russia and abroad	63	64
Share of environmentally safe marine fuel in total sales of bunker fuel	23	23
Share of energy efficient lubricants ¹ in total production of lubricants (PVL + CVL)*	8	10

Note. *The method of calculating the indicator (PVL+CVL) has been revised: only branded oils with a viscosity grade of less than or equal to XXW-30 are taken into account; 2018 data has been updated.

¹ Oils with low high-temperature viscosity values (less than or equal to XXW-30) from light and heavy-duty product lines.



LUKOIL's strategic focus is on continuously seeking opportunities to enhance the quality of its motor fuels and lubricants and adopting an approach of anticipatory compliance with the requirements of the markets where our products are sold.

The composition of our motor fuels was 100% compliant with Euro 5 (European emission standard 5) as early as 2012. As part of continued work to improve fuel quality, LUKOIL has launched the ECTO and ECTO+ fuel brands (motor gasoline and diesel fuel). The combustion products of these new types of fuel contain less sulfur, soot, carcinogens, and other hazardous substances. The Company also produces innovative products for marine shipping, aviation, and industrial companies.

LUKOIL is one of the largest suppliers of bunker fuel in Russia and for ports in Bulgaria and Romania. Environmentally safe marine fuel (RMD-80/TSE) with 0.1% sulfur content meets MARPOL¹ requirements related to the content of air pollutants in exhaust gas in SECAs² and aquatic areas of the European Union. This product has been sold in the Baltic Sea aquatic area since 2014.

¹ The 1973 International Convention for the Prevention of Pollution from Ships, as modified in 1978, MARPOL 73/78.

² Sulfur emission control areas (SECA) are aquatic areas in the North and Baltic Seas and part of the US coast.

PRODUCTION OF ENERGY EFFICIENT LUBRICANTS

Our priority in developing production of oils and lubricants is to create innovative products for promising new types of equipment and machinery, as well as highly effective specialized products for various industry sectors.

LLK-International develops and supplies low-viscosity Genesis FE (Fuel Economy) oils to consumers in various countries. These oils help reduce fuel consumption by internal combustion engines and boost energy efficiency.

QUALITY MANAGEMENT

The Company adopts an integrated approach to quality management at all stages of the product life cycle, from production to consumer. We apply unified quality management approaches both in Russia and abroad.

The quality management systems of nine entities operating in the aircraft bunkering sector in Russia and abroad, as well as all LLK-International facilities producing oils and liquid lubricants, are certified under ISO 001:2015 with respective certificates.

Ensuring the quality of motor fuels

Our goal is to perform comprehensive and real-time monitoring of the delivery and acceptance of oil products, both

We also produce environmentally friendly oils. Biodegradable products under the BIO brand (BIOLUBE, BIOCHAIN, and BIOFLUIDE) are supplied to the European market. Over time these oils degrade into components that, unlike the case with synthetic oils, do not harm the environment.

to and from Transneft and Russian Railways transportation systems, and to ensure their proper acceptance, storage, and sale at LUKOIL bulk plants and fuel stations.

Our corporate automated management system, which covers all filling stations and most bulk plants in Russia and is installed at facilities in Serbia and Romania, allows oil product flows to be electronically tracked from refinery to end user. The Guaranteed Oil Product Delivery system reduces product transportation time, as well as the number of improper uses and product losses incidents. The electronic sealing of road tankers helps reduce the rate of injuries among filling station personnel, as it eliminates dangerous work at heights.

Distribution of LUKOIL Group filling stations among countries, as of December 31 each year

	2017	2018	2019
Total	5,258	5,168	5,044
Russia	2,609	2,556	2,469
Abroad	2,649	2,612	2,575

Note. Data include LUKOIL Group's owned, leased, and franchised filling stations, as well as suspended and leased filling stations (as of 31 December 2019). Changes in the performance dynamics of Russian companies supplying oil products are mainly due to a reorganization of the sales network in 2018-2019.

Ensuring the quality of oils and lubricants

Audits of LUKOIL production sites by customers which are leading car manufacturers (Daimler, General Motors, Ford, Volkswagen, Renault-Nissan-Mitsubishi, etc.) are an effective quality control method and customer relations tool for LLK-International, as it is during such audits that product quality and production efficiency are evaluated.

We impose similar requirements on suppliers of raw materials, additives, and supplementary materials. All suppliers are assessed against the applicable corporate standard¹, and LUKOIL Group entities perform audits of suppliers.

By 2022 LLK-International plans to upgrade its capacities at principal sites in Perm and Volgograd in order to accelerate a transition to manufacturing small-tonnage batches, which will reduce the resource intensity of production processes.

Customer relations are covered by the SP LLK 08-2015 standard "The Procedure for Handling Customer Claims and Complaints." Customers are sent Product Satisfaction Questionnaires three times a year in order to gauge their satisfaction levels. The average consumer satisfaction level is defined as the ratio of positive responses in questionnaires to the total number of completed questionnaires.

Average satisfaction level of oil and lubricant consumers, % of those satisfied with product quality



¹ SP LLK 11-2016 "Procedure for Assessing Suppliers of Materials and Services."

RELATIONS WITH FILLING STATION CUSTOMERS

We maintain constant contact with the retail customers of our filling stations and analyze feedback from them in order to improve the quality of services as well as the satisfaction level with our products and services. The main methods of customer interaction are surveys and analyses of client requests and proposals received via the Unified Hotline directly at filling stations and through social networks. LLC LICARD's Big Data analytics tools facilitate customer segmentation, which in turn facilitates more accurate feedback.

Feedback is used to improve the work of regional managers at filling stations: every month their performance is benchmarked against criteria that take into account requests and complaints received via a Unified Hotline, as well as the rating received in the Mobile Application.

After the launch of the new "Fill up with profit" loyalty program in 2019, the number of calls from individual clients to the Unified Hotline rose by 30%, due mainly to requests to update personal data. This means that customers demonstrated significant

interest in the new program and were enthusiastic about participating in it. To maintain the quality of services at the time of the program launch, additional operators were hired (new employees were trained prior to its launch), a new call center site was opened, and information materials were prepared.

An analysis of calls from clients to the Unified Hotline in 2019 demonstrated greater satisfaction with fuel quality and that issues previously cited by clients as problematic had also been successfully resolved.

Thanks to systematization and new channels of communication with clients about advertising campaigns, the number of informational requests related to promotions terms saw an almost fourfold decrease. To boost the effectiveness of information campaigns, regional segmentation has been tested since 2019: clients in a specific region receive messages about campaigns launched in relevant territories. Work is carried out with specific groups of clients to resolve local issues.



IN 2019 THE NUMBER OF COMPLAINTS ABOUT THE QUALITY OF OIL PRODUCTS AT FILLING STATIONS DROPPED BY ALMOST 30% COMPARED TO 2017, AND THE NUMBER OF COMPLAINTS ABOUT THE ABSENCE OF OIL PRODUCTS FELL 70%. THERE WAS A 3.5 TIME INCREASE IN POSITIVE FEEDBACK FROM CLIENTS ON THE WORK OF FILLING STATION OPERATORS.



The customer relations system we have developed helps us boost overall operational efficiency and create a welcoming environment at filling stations.

Customer service unit answers clients' questions via any convenient communication channel

EXTERNAL SOCIAL POLICY PRIORITIES

EXTERNAL SOCIAL PROGRAM MANAGEMENT SYSTEM

ELEMENTS OF THE MANAGEMENT SYSTEM	DESCRIPTION	CORPORATE DOCUMENTS
 PRINCIPLES	The Company's social responsibility principles are defined as follows: - continuity of business; - economic feasibility; - and control over performance of obligations and public reporting. The Company's charity and sponsorship priorities and the mechanisms for their implementation and assessment have also been established.	The Social Code of PJSC LUKOIL, approved by the PJSC LUKOIL Board of Directors, Minutes dated 24 October 2017
 PRIORITIES	Environmental protection, the development of science and education, the preservation of national and cultural identities, and sponsoring culture and sports and supporting socially vulnerable groups.	The Social Code of PJSC LUKOIL, clauses 3.1 – 3.7.
 GLOBAL PRACTICE	When developing our social programs we take into account the principles of the United Nations Global Compact.	
 INTERACTION WITH THE REGIONS WHERE WE OPERATE AND WITH LOCAL COMMUNITIES	PJSC LUKOIL's external social policy is executed using the following mechanisms: - social and economic cooperation agreements with constituent entities of the Russian Federation; - an annual Social and Cultural Projects competition held for public and municipal organizations - charity projects and programs, targeted support - supporting the indigenous minorities of the North - corporate volunteering - sponsorships.	PJSC LUKOIL's Policy on Interactions with Subsidiaries on Key Lines of Activities of the Public Relations Department approved by the Management Committee of PJSC LUKOIL, Minutes dated 23 December 2019 (clauses 4.1.14 – 4.1.20).
 ASSESSMENT OF PROJECTS	The main criterion for selecting projects we support is their potential contribution to resolving local issues. Our methods of assessing the efficacy of implemented projects include: - meetings with regional administrations to discuss the effective implementation of cooperation agreements - regular monitoring of the social and economic situation in Russian regions - meetings with residents of Russian regions (roundtables, dialogue sessions, conferences).	



ADDITIONAL INFORMATION

The Social Code of PJSC LUKOIL:



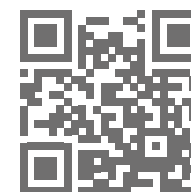
The LUKOIL Charity Fund Non-Profit Organization:



The Social and Cultural Projects Competition:



Our partner in the "More than Just a Purchase" program is the "Our Future" foundation of regional social programs:



IN 2019 LUKOIL GROUP EXTERNAL SOCIAL SUPPORT EXPENSES AMOUNTED TO

RUB **9.2** BILLION,
INCLUDING CHARITY SOCIAL PROJECTS AND EVENTS UNDER 31 COOPERATION AGREEMENTS WITH CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION.

We recognize the importance of regularly interacting with the residents of the Russian regions where LUKOIL entities operate. Our external social policy focuses on the interests of territories and local communities, and is based on the principles of constructive cooperation and responsible partnership.

In Russia we implement joint projects with local authorities and social organizations to build and renovate kindergartens, schools, sports facilities, medical centers, hospitals, cultural institutions, and other socially significant facilities.

Our social priorities have remained unchanged for over a quarter of a century, and are the same for all the regions and countries where LUKOIL Group entities operate. Many programs and regional projects are long

term in nature, and financed both by the LUKOIL Charity Fund (hereinafter, the LUKOIL CF or the Fund) and directly by LUKOIL Group entities.

The most well-known branded program is the Social and Cultural Projects Competition, held by the LUKOIL CF in partnership with LUKOIL Group entities. In 2019 the competition was held abroad for the first time in Romania. The decision to expand the competition boundaries was made in response to requests from local residents during dialogue sessions. The Company has held dialogue sessions in the cities of Prahov and Bucharest in Romania twice a year over the past few years.

Our corporate programs are generally targeted and build on regional expertise and human potential.

In 2019 PJSC LUKOIL won the IPRA Golden World Awards for Excellence in two categories: **Best Campaign for Community Engagement and Best Campaign for Promoting Travel and Tourism, for its projects to develop Kogalym as a tourism center in the West Siberian oil and gas producing region.**

LUKOIL was also declared one of the winners in a contest for the best socially responsible oil and gas company of 2019, and received **diplomas for promoting charity activities among citizens and organizations.**

AREAS OF SUPPORT



SELECTED SOCIAL POLICY INITIATIVES

SUPPORT FOR ORPHANED CHILDREN, DISABLED PERSONS, WAR AND LABOR VETERANS, AND OTHER GROUPS IN NEED OF HELP

We support public institutions that look after orphaned and abandoned children, as well as the children themselves. Our programs promote the personal development of children, improve their health, and help them socialize and adapt to adult life. By supporting disabled people, we not only provide them with financial assistance, but also help them master new life skills.

The Company provides special concern and caring to World War II veterans working in the oil industry. Every year, on the eve of Victory Day, they receive monetary aid and gifts. The Company also supports the families of military servicemen who died in local conflicts.

Supporting social groups in need of help

A program to sponsor specialized libraries for blind children was continued: such libraries in six regions of Russia received computer equipment, software, and devices for reading audio books.

In 2019 a new program for children with cerebral palsy was launched to provide them with wheelchairs tailored to their bodies and functional needs. With increased mobility, their lives will become more active and interesting.



SELECTED SOCIAL POLICY INITIATIVES

ENVIRONMENTAL PROJECTS

Environmental campaigns have been held at LUKOIL Group entities throughout the Company's existence and are a part of our corporate culture that is much loved by employees. As part of these events our employees and partners traditionally plant trees and flowers and clear litter from urban and natural areas, river banks, and rivers.



SELECTED SOCIAL POLICY INITIATIVES

EDUCATIONAL PROGRAMS

We believe that our programs for the younger generation and young oil industry specialists will make a valuable contribution to the future well-being of society.

The Company supports oil industry higher and secondary educational institutions: high-quality research and modern facilities and resources help them organize the educational process in accordance with the highest standards. The institutions use financial support from the Company to create research centers, laboratories, and academic departments; purchase equipment; and publish new textbooks and collections of articles about the oil and gas industry.

In 2019 PJSC LUKOIL opened an interactive training and methodological center in the historical hall No. 25, Oil, at the Exhibition of Achievements of the National Economy in Moscow (VDNKh). This is the largest multimedia exhibition in Russia devoted to scientific and applied topics, and it depicts the entire production cycle – from hydrocarbon production to refining and sales operations.

This exhibition has been prepared with the help of the most advanced technological solutions at the intersection of the digital and physical world, such as virtual and augmented reality, and holographic theater. The role of oil in human life is shown through the synchronization of the subject, graphical, and multimedia content and is presented through 150 stories. The Oil Pavilion is popular with a wide range of visitors, including children interested in science and technology, students, and experts in this area. The Oil City playground is situated near the Pavilion, featuring play areas called Offshore Oil Production Platform, Oil Refinery, Fuel Truck, and Racing Car and has various sports equipment installed in it.

Traditional educational support programs continued in 2019. Since 2000 we have been sponsoring high-potential students, young teachers, and job training instructors by providing individual scholarships and grants. In 2019 the scholarship program covered 14 higher education institutions and three colleges, and the grant program covered one high school, eight higher education institutions, and four colleges in Russia.

LUKOIL Group entities also support educational initiatives in regions where they operate and implement programs that have wide coverage.

Sponsorship programs for students and teachers of higher and secondary education organizations in Russia

	2017	2018	2019
Student scholarships			
Number of scholarship holders, people	180	190	195
Level of financing, RUB million	6.6	5.9	6.2
Grants to teachers			
Number of teachers, people	89	79	79
Financing amount, RUB million	10.3	9.0	9.2

More details can be found on our corporate website:





SELECTED SOCIAL POLICY INITIATIVES

SUPPORTING HEALTHCARE INSTITUTIONS

The Company has for many years supported a number of large specialized medical centers and regional hospitals, out-patient clinics, and first aid stations, as well as improving medical services in the regions of operation.

The Company continued to run the Medical Force campaign to purchase medical equipment for district hospitals in the Perm Territory. This initiative has been running for more than five years.

In Uzbekistan we helped local organizations purchase equipment and specialized vehicles: an ambulance was provided to the Bukhara branch of the Soglom Avlod Uchun medical fund and the Bukhara Emergency Medical Care Center received an oxygen station. The Children's National Oncology Hospital received charitable support to repair and equip the surgery department.



SELECTED SOCIAL POLICY INITIATIVES

CULTURAL HERITAGE PRESERVATION PROGRAM

This program is aimed at developing Russian culture, promoting spirituality, and preserving national values. For many years we have supported museums, theaters, performance groups, and festivals. We take part in organizing exhibitions and concert tours, restoring cultural heritage sites, and repairing cultural and art centers in Russian regions.

The Company is committed to fostering conditions that preserve national and cultural traditions and crafts in regions of operation, and supports various types of art, especially classical, as well as the territories where cultural monuments are located, including those representing valuable or particularly vulnerable cultural heritage sites. Numerous projects to preserve cultural heritage have been implemented.

2019 was the Year of Theater in Russia. During the year a new stage of the Moscow Maly Theater was opened, in Kogalym. The former cultural and leisure complex was redeveloped and converted into a modern cultural site that can be used for a range of theatrical performances. A small theater company was set up comprising graduates of the Shchepkin Higher Theater School. It will be permanently located in Kogalym and work as a branch of the Maly Theater. This is the first such collaboration between a Moscow theater and a Russian region.

The Company has traditionally supported a large number of cultural events: the Perm State Art Gallery hosted a traveling exhibition entitled "Masterpieces of the Kremlin," Workshops, showcasing Moscow Kremlin Museums; the Russian Museum put on "Angels of the 20th Century" exhibition; the Vyatka Art Museum named after V.M. and A.M. Vasnetsov held the "Time Space" exhibition; and the Astrakhan Art Gallery named after P.M. Dogadin put on "The City of the Sun" exhibition using exhibits from the ROSIZO State Museum and Exhibition Center. Also, the Company supported the restoration of paintings of well-known Russian artists in Moscow and regional museums, and in addition to the above-mentioned projects, the Company also supported cultural centers and performance groups in various towns and villages across Russia.



SELECTED SOCIAL POLICY INITIATIVES

SOCIAL AND CULTURAL PROJECTS COMPETITION

The Social and Cultural Projects Competition has been held at LUKOIL Group entities, including in cooperation with the LUKOIL CF, since 2002. Its main goal is to support initiatives from local citizens and entities to help resolve issues that impact local areas, and to facilitate conditions that will increase the number of active citizens capable of implementing worthwhile social ideas.



SELECTED SOCIAL POLICY INITIATIVES

SUPPORTING SPORTS TEAMS AND EVENTS

LUKOIL's sports program is geared towards promoting healthy lifestyles and sports. We help both professional and amateur teams and are constantly in search of new ideas to implement social initiatives in this area. The consistent nature of our approach is demonstrated by our continuous support of sports organizations (clubs, federations, leagues, etc.) through the LUKOIL Sport Club.

We support the following sports: soccer, motor racing, basketball, competitive skiing, water polo, handball, etc.

Thanks to the Company's support efforts, Russian car racers (Lukoil Racing Team), FC Spartak, the national skiing team, United Basketball League athletes, and numerous regional teams have recorded impressive victories in various sports. All professional clubs supported by LUKOIL develop children sports.

In addition, the Company supports the development of youth soccer at the international level



Lukoil Cup:



Children's
Soccer League:

Attention is also paid to sports veterans – LUKOIL is a founder of the Russian Olympians Foundation.

The initiatives of the LUKOIL Sport Club are intended for young athletes, amateur and professional athletes, and disabled people.

"Refueling through Sport" grant. This nationwide charity project is aimed at sponsoring athletes aged between six and fourteen. In addition to cash prizes, winners receive sportswear and train under the guidance of Olympic champions. Each year 10 to 15 winners are selected.

"Refueling through Sport" night race. In 2019 this charity race was held for the second time, as part of the Formula One Russian Grand Prix. Participants had the opportunity to run on the race track when Russia hosted the stage of the competition. Around one thousand runners took part, twice as many as in 2018. The funds raised were partially used to support Russia's youngest racer, Rodion Dyadya.

More details about the activities of LUKOIL Sport Club can be found here:



SOCIAL AND CULTURAL PROJECTS COMPETITION

THE TRADITIONAL
CATEGORIES
OF THE COMPETITION
ARE:

"ENVIRONMENT"

"SPIRITUALITY
AND CULTURE"

"SPORTS"

Social and Cultural Projects Competition results

Indicator	2017	2018	2019
Number of projects participating in the competition, units	3,364	3,645	3,607
Number of winning projects, units	739	772	785
Financial support for winning projects, RUB million	121	141	159



SELECTED PROJECTS FINANCED IN 2019

More information about projects
LUKOIL supports can be found
on the Facebook page:



Improving the social climate in Russian regions

Neman, the Kaliningrad Region. The Spirituality and Culture (Dukhovnost i Kultura) organization implemented **"The House where We Live"** project, aimed at improving the stays of disabled children at the children's activity center. The grant was used to renovate the classroom and thereby provide a more comfortable environment for classes.

Preservation of national and cultural identities

Ukhta, the Komi Republic. The Local History Museum in Ukhta implemented a project called **"Craft is not a Shoulder Yoke."** This exciting and modern project seeks to promote the traditions of the Komi people. The project authors organized an exhibition of old household items and supplemented it with interactive zones for workshops. Children can become hunters and find out about animal trails or learn what a spinning wheel and a spindle are and the basics of weaving. The exhibition is supplemented with paintings in the ethnofuturism style by the artist Yuri Lisovsky.

Environmental improvement

Solikamsk, the Perm Territory. **The Travel Shore** project of the Demidov Memorial Botanical Garden. As part of the project, a new tourist trail was created on virgin lands of the garden covering 1.2 hectares. In addition to rare and collectable plants, art objects and 10 information stands were installed.

CORPORATE VOLUNTEERING

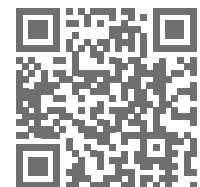
The practice of volunteering in campaigns and events for the benefit of the residents of cities and villages has long been part of LUKOIL's corporate culture. Our young employees organize their own volunteer projects and participate in local initiatives.

Despite the large variety of campaigns, our volunteers from all regions where LUKOIL operates have shared priorities. These include the following types of support and social participation:

- Support for war and oil industry veterans: visiting the elderly, helping them around the house, and giving them gifts.
- Care for children - visits to orphanages and patronage of child welfare institutions, organizing related events and campaigns.
- Environmental campaigns - cleaning up natural sites, planting trees in cities.
- Sporting events - bicycle rides, races, relays, rafting, hiking, etc.
- Charity fairs and city festivals to encourage the residents of cities and villages to provide charitable aid to their neighbors.

SOCIAL ENTREPRENEURSHIP

The **"More Than Just a Purchase"** project is a unique joint initiative between LUKOIL Group Russian entities supplying oil products and the **"Our Future"** Foundation of Regional Social Programs.



Its purpose is to sponsor social entrepreneurs¹, who get the opportunity to sell their products at the Company's filling stations. The project helps people understand that, by buying goods under the "More Than Just a Purchase" brand, our clients buy high-quality goods produced by Russian companies that employ disabled people, pensioners, and other socially vulnerable groups. By making informed choices, they help people who need help.

In 2019 we supported 34 entrepreneurs, including five branches of the All Russia Association of the Blind. The range of goods produced by social entrepreneurs and supplied to filling stations has been expanded: it now includes goods for cafes and for picnics.

More details about the project:



AS OF 31 DECEMBER
2019, OVER

107

SUPPLIERS WERE
PARTICIPATING
IN THE PROJECT,
WHILE THE GOODS
OF 63 SUPPLIERS
WERE SOLD AT LUKOIL
FILLING STATIONS.
THIS IS THE LARGEST
NETWORK OF SOCIAL
ENTREPRENEURS
IN RUSSIA.

¹ Social entrepreneurship refers to a special type of activity aimed at resolving or mitigating social issues using income from economic activities. Both small businesses and social non-profit organizations can be social entrepreneurs.

SUPPORTING INDIGENOUS MINORITIES OF THE NORTH

Since 2017 a cooperation agreement has been in effect between PJSC LUKOIL and the Federal Agency for Ethnic Affairs, to promote the social, economic, and cultural development of indigenous minorities of the North. In 2019 the main focus of cooperation was the preservation of indigenous languages. LUKOIL joined the Organizing Committee of the International Year of Indigenous Languages 2019 in Russia. The Company assisted the Russian delegation and was one of its participants at the official opening of the International Year of Indigenous Languages 2019 at the UNESCO site in Paris. Also, LUKOIL was a partner of the "Year of Indigenous Languages in Russia" international forum held in Khanty-Mansiysk. The Company also participated in the 18th Session of the UN Permanent Forum on Indigenous Issues in New York, where it showcased its experience in supporting social projects to preserve and develop the national languages of indigenous minorities of the North.

LUKOIL continues to support the "Talents of the Arctic. Children" project, which is aimed at encouraging interest among the children of indigenous minorities of the North in their native languages. In December the Company supported the organization of the winners' visit to Moscow. As part of the event, the Company received a letter of gratitude from the Federal Agency for Ethnic Affairs, "For Contributing to Strengthening Nationwide Peace and Conciliation." The letter was presented to the Company at the Federation Council of the Russian Federal Assembly, after the ceremony to award the winners of the "Talents of the Arctic. Children" cultural and educational project.

The Company has established and successfully operates mechanisms that allow indigenous minorities of the North and their organizations to contact the Company and request assistance or the protection of their rights.

We also implement charity projects, such as the "Red Chum" project in the Nenets Autonomous Area.

LUKOIL-West Siberia has an Indigenous People Relations Department that interacts with indigenous minorities of the North. Indigenous people can contact the Company's employees by telephone. After receiving a request, employees of the Indigenous People Relations Department prepare the necessary documents, which are then assessed by management. Traditionally, requests from indigenous minorities of the North are mainly practical in their nature - for example, requests to connect a nomad camp to the grid, to install additional water pipes at intersections of industrial roads crossing streams or lakes, or to construct ramps on the sides of oil field roads where deer migrate, etc.



TOTAL IN 2019

RUB **385.6**
MILLION

SUPPORT
OF INDIGENOUS
MINORITIES
OF THE NORTH IN RUSSIA
AS PART OF LICENSING
OBLIGATIONS

Supporting indigenous minorities of the North in Russia as part of licensing obligations

RUSSIAN REGION

	KHANTY-MANSI AUTONOMOUS AREA - YUGRA	NENETS AUTONOMOUS AREA	TOTAL
2019	RUB 355.1 MILLION	RUB 30.5 MILLION	RUB 385.6 MILLION
2018	RUB 353.5 MILLION	RUB 30.5 MILLION	RUB 384.0 MILLION
2017	RUB 311.4 MILLION	RUB 30.5 MILLION	RUB 341.9 MILLION



CONCLUSION

LUKOIL, as a leading company on the Russian market and a participant in the global supply chain, supports the efforts of the global community to limit increases in average annual temperature as a result of climate change caused by human activities. We see climate change as a challenge for all of us and we take the relevant risks and opportunities seriously. In 2019 the Company took comprehensive steps to better organize our activities in this area and to adopt a more systematic and strategic approach.

We are fully supportive of the United Nations 2030 Agenda for Sustainable Development. The Company recognizes that the goals outlined in this document are of vital importance for ensuring a prosperous future for the human society. Furthermore, greater efforts are required to ensure that the positive changes being made in support of a number of goals are sustainable. Therefore, we continue to implement programs aimed at both improving the operational performance of our enterprises and ensuring the wellbeing of the people living in the regions where we operate.

We have identified 11 global goals and 15 targets which we consider to be the most relevant to our operations and to which we are able to contribute. We achieved good success in 2019, but much remains to be done.

LUKOIL will continue to inform our stakeholders – government authorities, non-government organizations, local communities, shareholders, and investors – about the measures we take and the results we achieve in our annual sustainability reports.

We welcome feedback on the information published. We try to take into account all the questions and suggestions we receive, and to make changes in the data collection and analysis system as required in order to improve the quality of our reporting.

APPENDICES

APPENDIX 1. LUKOIL GROUP’S STRUCTURE AS PER IFRS

Russia	
Exploration and Production <i>Oil and Gas Production in Russia business sector</i> LLC LUKOIL-AIK SP Neftestroy LLC LUKOIL-West Siberia LLC ChumpassNefteDobycha LLC LUKOIL EPU Service LLC Yuznho-Sardovskoye LLC LUKOIL-Kaliningradmorneft LLC UTTiST LLC LUKOIL-Komi LLC LUKOIL-Nizhnevolzhskneft LLC LUKOIL-Nizhnevolzhskneft-Kalmykiya LLC LUKOIL-PERM LLC UralOil LLC Perm-Invest LLC RITEK LLC LUKOIL-Primoryeneftegaz LLC NK Yugraneftprom LLC TURSUNT LLC LUKOIL-Engineering Refining, Marketing and Distribution <i>Oil Refining in Russia business sector</i> LLC LUKOIL-Volgogradneftepererabotka LLC LUKOIL-Nizhegorodnefteorgsintez LLC LUKOIL-Permnefteorgsintez LLC LUKOIL-Ukhtaneftepererabotka <i>Petrochemicals business sector</i> LLC Saratovorgsintez LLC Stavrolen <i>Transportation business sector</i> LLC LUKOIL-Trans LLC Varandey Terminal LLC LUKOIL-Varandey-AVIA LLC RPK-Vysotsk LUKOIL-II LLC LUKOIL-KNT JSC LUKOIL-Chernomorye <i>Oil Product Supply in Russia business sector</i> LLC LUKOIL-Rostovnefteprodukt LLC LUKOIL-Severo-Zapadnefteprodukt LLC LUKOIL-Uralnefteprodukt LLC LUKOIL-Tsentrnefteprodukt LLC LUKOIL-Yugnefteprodukt LLC LICARD (LUKOIL-Inter-Card)	<i>Other entities related to Refining, Marketing and Distribution business segment</i> LLC INTESMO LLC LUKOIL-KGPZ LLC LUKOIL MarinBunker JSC Morskoye Agentstvo Novotorik LLC Donbunker LLC LUKOIL-AVIA LLC LLK-International LLC LLK Marin Rus JLLC LLK-NAFTAN LLC LUKOIL-AERO LLC LUKOIL-AERO-Domodedovo LLC LUKOIL-AERO-Samara LLC LUKOIL-AERO-Vostok LLC TZK-Arkhangelsk JSC AERO-Sheremetyevo LLC TZK Volga LLC TZK Severo-Zapad LLC LUKOIL-Nizhegorodniinefteproekt LLC LUKOIL-Rezervnefteprodukt LLC LUKOIL-RNP-Trading LLC LUKOIL-Aero LLC AERO-NEFTO <i>Power Generation business sector</i> LLC LUKOIL-Volgogradenergo LLC Volzhsk Heat Supply Networks LLC Kamyshin Combined Heat and Power Plant LLC Kamyshin CHPP LLC Teplovaya Generation G. Volzhskogo LLC LUKOIL-Astrakhanenergo LLC Astrakhan Heat Supply Networks LLC LUKOIL-Kubanenergo LLC LUKOIL-Stavropolenergo LLC LUKOIL-Rostovenergo LLC Volgodonsk Heat Supply Networks LLC Rostov Heat Supply Networks LLC Volgodonskaya Teplovaya Generation LLC LUKOIL-Ekoenergo LLC LUKOIL-ENERGOSERVIS LLC LUKOIL-ENERGOSETI LLC LUKOIL-TsUR LLC LUKOIL-Energoengineering
Corporate and Other	
PJSC LUKOIL LLC LUKOIL-INFORM LLC LUKOIL-Technologii LLC LUKOIL-Accounting Center	LLC LUKOIL PERSONNEL LLC Arkhangelskgeolrazvedka LLC K.N. Holding

Abroad	
Europe Exploration and Production <i>Oil and Gas Production Abroad business sector</i> LUKOIL Overseas Atash B.V. LUKOIL Overseas North Shelf AS Refining, Marketing and Distribution <i>Oil Refining Abroad business sector</i> LUKOIL Neftohim Burgas AD ISAB S.r.l. PETROTEL-LUKOIL S.A. Zeeland Refinery (PJSC LUKOIL holds a 45% share) TOTAL Opslag en Pijpleiding Nederland N.V. <i>Oil Product Supply Abroad business sector</i> LUKOIL-BULGARIA EOOD LUKOIL Belgium Auto Maas Tankstations B.V. LUKOIL Italia S.r.l. LUKOIL MACEDONIA LTD Skopje LUKOIL Netherlands B.V. LUKOIL ROMANIA S.R.L. LUKOIL SERBIA PLC Belgrade Oy Teboil Ab Kiinteisto Oy Nurmijarven Liikennepalvelukeskus LUKOIL Croatia Ltd. LUKOIL MONTENEGRO DOO IOOO LUKOIL Belorussia LUKOIL-Moldova S.R.L. <i>Power Generation business sector</i> LAND POWER S.A. <i>Other entities related to Refining, Marketing and Distribution business segment</i> LUKOIL Aviation Bulgaria EOOD LUKOIL-Bulgaria Bunker EOOD LUKOIL LUBRICANTS EAST EUROPE S.R.L. LUKOIL Lubricants Europe GmbH LUKOIL LUBRICANTS UKRAINE, TOV LUKOIL MARINE LUBRICANTS DMCC LUKOIL Marine Lubricants Germany GmbH LITASCO SA LUKOIL Hamburg GmbH LUKOIL Benelux B.V. EIGER SHIPPING SA LUKOIL Overseas Supply and Trading Ltd. LUKARCO Finance B.V. LUKINTER FINANCE B.V. LUKOIL Europe Holdings B.V. LUKOIL Holding B.V. LUKOIL International Finance B.V. LUKOIL International Upstream Holding B.V. LUKOIL International Secondment B.V. LUKOIL SECURITIES LIMITED LICARD Euro Services GmbH LUKOIL Capital Markets Ltd	Verolma Mineralol GmbH LUKOIL INTERNATIONAL GmbH AC MANAGEMENT COMPANY LIMITED ARJ LTD LUKOIL Holding GmbH MEROIL TANK S.L. SOOO LLK-NAFTAN SOOO LUKOIL-Inter-Kard-Bel VARs Corporate and Other LUKOIL Accounting and Finance Europe s.r.o. LUKOIL Technology Services GmbH Asia, Middle East, Africa Exploration and Production <i>Oil and Gas Production Abroad business sector</i> LUKOIL Overseas Shah Deniz Midstream LUKOIL Overseas Shah Deniz Ltd. LUKOIL Uzbekistan Operating Company LLC SOYUZNEFTEGAZ VOSTOK LIMITED LUKOIL Overseas Uzbekistan Ltd. LLP LUKOIL Kazakhstan Upstream Upstream Services Limited LUKARCO B.V. LUKOIL Overseas Karachaganak B.V. LUKOIL Overseas Kumkol B.V. TURGAI-PETROLEUM JSC LUKOIL MID-EAST LIMITED LUKOIL Overseas Iraq Exploration B.V. LUKOIL SAUDI ARABIA ENERGY LIMITED LUKOIL OVERSEAS EGYPT LIMITED Esh El Mallaha Petroleum Company LUKOIL Overseas Etinde Cameroon Sarl LUKOIL OVERSEAS GHANA TANO LIMITED LUKOIL Overseas Nigeria Limited LUKOIL UPSTREAM PRODUCTION NIGERIA LTD LUKOIL Overseas Riyadh Ltd Refining, Marketing and Distribution <i>Oil Product Supply Abroad business sector</i> LUKOIL Eurasia Petrol Anonim Sirketi LUKOIL-Azerbaidjan, ZAO LUKOIL-Georgia Ltd. OOO LUKOIL Uznefteprodukt

Abroad

Other entities related to Refining, Marketing and Distribution business segment

LUKOIL Lubricants Middle East Madeni Yag Sanayi ve Ticaret Limited Sirketi
LUKOIL Lubricants Central Asia LLP
LUKOIL Lubricants (China) Co., Ltd.
LUKOIL Lubricants Africa, S.A.R.L.
Akpet Gaz A.S.
Lukoil Istasyon Isletmeciligi Limited Şirketi
Akpet Akaryakit Dag. A.S.
Akdeniz Boru Natlari Nakliyat ve Isletmecilik Ic ve Dis Tic. Ltd Sti
Op-Ay Akaryakit Tic. Ltd. Sti.
ISTASYON YONETIMI VE PETROL URUNLERI TICARETI
ANONIM SIRKETI
LITASCO SA
LLP LITASCO Central Asia
LITASCO Middle East DMCC
IRAQ PETROLEUM TRADING DMCC
LUKOIL ASIA PACIFIC PTE LTD.

Americas

LUKOIL MARINE LUBRICANTS USA INC.
LUKOIL Lubricants Mexico, S.de R.L.de C.V.
LUKOIL NORTH AMERICA LLC
LUKOIL Pan Americas, LLC
LUKOIL Lubricants Mexico S.de R.L.de C.V.
LUKOIL MARINE LUBRICANTS USA INC.
LUKOIL International Upstream West Inc
INTEGRATED EXPLORATION AND PRODUCTION SERVICES, S. de R.L. de C.V.
LUKOIL UPSTREAM MEXICO, S. de R.L. de C.V.

APPENDIX 2. IDENTIFICATION OF MATERIAL TOPICS OF THE REPORT

The procedure for determining the material topics of the Report is performed in accordance with the Global Reporting Initiative (GRI) standards, with a focus on SASB standards and UN Global Sustainable Development Goals. Recently, discussions have intensified on the need to introduce more precise criteria and procedures for determining materiality, which could ensure comparability of the results of the analysis of material topics in the reports of different companies¹. We support it and will be guided by the discussion results.

For the reporting purposes, a material topic is a topic that reflects the Company's significant long-term economic, environmental and social impact (positive or negative) on the countries/regions of operations and local communities, and/or affects the interests of / may affect stakeholders. Each material topic includes a number of issues that may be rather specific to a particular territory or a time period, and, accordingly, may vary from report to report.

Our goal is to continuously improve the quality of corporate sustainability reporting and its informative value to stakeholders. To attain it we perform the following procedures:

- analysis of sustainability reports of oil and gas companies
- analysis of the results of an audit and external assurance of the report for the previous reporting period
- analysis of media publications
- analysis of legislative requirements for non-financial information disclosures, requirements of financial platforms, monitoring of non-financial reporting systems and major initiatives in this area
- surveys of PJSC LUKOIL unit heads, heads of LUKOIL Group entities, members of the Board of Directors and the Management Committee (once every two years), ranking of material topics and issues based on the results (scoring is applied)
- stakeholder engagement during a reporting year in various formats (roundtables, responses to inquiries, surveys of consumers and employees, working groups, participation in external initiatives, etc.).

The analysis findings are presented as a list of relevant issues. Based on qualitative analysis (repeatability, scale, rating issued by managers of PJSC LUKOIL, etc.), material issues are identified and grouped into material topics. The Sustainability Task Force approves the list of material topics. The Non-Financial Reporting Regulations are being developed by LUKOIL Group. Material

topics and issues identified for 2019 can be found on two-page opening of the Sustainability Report (page **18**).

The Report takes into account where possible the recommendations received after the external assurance of the Sustainability Report for 2018

- Describe a procedure for identifying material topics
- Provide more detail on the impact of digitalization of the Company's activities on efficiency improvement, sustainable resource use, risk management (in progress as projects are being implemented)
- Describe the Company's experience in supplier assessment during tenders (environmental and social aspects of their activities) as part of implementing the principle of a responsible supply chain
- Other recommendations are taken into account and will be implemented in the course of the reporting information preparation.

APPENDIX 3. GRI CONTENT INDEX

102-55 GRI Standards and Indicators Table

Index	Indicators	Section of the Report	Page
GRI 101. Reporting Principles		Sustainable development context Materiality Completeness Considering stakeholders' opinions	
GRI 102. General Disclosures 2016			
1. Organizational profile			
102-1	Name of the organization	About the Company: highlights of the year	18
102-2	Activities, brands, products, and services	About the Company: highlights of the year. Two-page openings: Business Model, Geography	6-9, 18
102-3	Location of headquarters https://www.lukoil.com/Company/contacts	About the Company: highlights of the year	18
102-4	Location of operations https://www.lukoil.com/Company/BusinessOperation/GeographicReach	Two-page opening Geography	8-9
102-5	Ownership and legal form Information about PJSC LUKOIL's share capital and securities is available on the corporate website: https://www.lukoil.com/InvestorAndShareholderCenter/Securities/sharecapital	Annual report	
102-6	Markets served	Two-page opening Geography	8-9
102-7	Scale of the organization	About the Company: highlights of the year	18
102-8	Information on employees and other workers The information on employment agreements is consolidated by the Company without a breakdown by permanent and temporary employees. Workers that are legally recognized as being self-employed, or individuals other than permanent and temporary employees of LUKOIL Group entities are not significantly engaged in operations	Our employees	130
102-9	Supply chain	Stakeholder management. Supply chain	40, 44
102-10	Significant changes to the organization and its supply chain Data on the supply chain are not consolidated		
102-11	Precautionary Principle or approach As part of its existing risk management system, the Company employs a cautious approach in the performance of Environmental and Social Impact Assessment (ESIA) procedures and in planning its Environmental Safety Program activities.		
102-12	External initiatives	Two-page opening Material topics of the Report	12-13
102-13	Membership of associations	Appendix 4. Individual GRI Standards and Indicators	166
2. Strategy			
102-14	Statement from senior decision-maker	Message from the President of PJSC LUKOIL	2-3
102-15	Key impacts, risks and opportunities	Risk management	31

¹. Sources: <https://www.datamaran.com/blog/materiality-corporate-accountability/>; https://pages.datamaran.com/hubfs/Materiality%20best%20practice.pdf?__hstc=154248359.8c6101132400fe2f5773e6a290a018c2.1580502787058.1580547645408.1581252863433.4&__hssc=154248359.2.1581252863433&__hsfp=1696309790

Index	Indicators	Section of the Report	Page
3. Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	https://www.lukoil.com/Company/CorporateProfile Ethics and statutory compliance Human rights	34-35
102-17	Mechanisms for advice and concerns about ethics	Ethics and statutory compliance Human rights	34-35
4. Governance			
102-18-102-19	The corporate governance system is detailed in the Annual Report for 2019, page 40-41, as well as on the corporate website: https://www.lukoil.com/Company/CorporateGovernance		
102-20	Executive-level responsibility for economic,environmental, and social topics	Sustainability and climate change management	24-25
102-21	Consulting stakeholders on economic, environmental, and social topics	Stakeholder engagement	41-43
102-22-102-28	The corporate governance system is detailed in the Annual Report for 2019, page 40-41, as well as on the corporate website: https://www.lukoil.com/Company/CorporateGovernance		
102-29	Identifying and managing economic, environmental, and social impacts	Two-page opening LUKOIL Group’s strategic goals in sustainable development	10-11
102-31	Review of economic, environmental, and social topics	Stakeholder engagement	41-43
102-32	Highest governance body’s role in sustainability reporting	Sustainability and climate change management	23, 27
102-33	Communicating critical concerns	Sustainability and climate change management	27
102-35-102-37	The corporate governance system is detailed in the Annual Report for 2019, page 40-41, as well as on the corporate website: https://www.lukoil.com/Company/CorporateGovernance		
102-38	Highest-paid employees’ compensation to average pay of the other employees of the Company (excluding the highest-paid staff) ratio	Appendix 5. Individual Basic Indicators and RSPP Sustainability Indices Indicators	169
	The indicator is disclosed partially, with regard to compensation of the Board of Directors and Management Committee members		
5. Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholder engagement	39
102-41	Collective bargaining agreements	Human rights	36
102-42	Identifying and selecting stakeholders	Stakeholder engagement	39-40
102-43	Approach to stakeholder engagement	Two-page opening Material topics of the Report	39-40
102-44	Key topics and concerns raised		12-13
6. Reporting practice			
102-45	Entities included in the financial statements	Appendix 1. LUKOIL Group’s structure as per IFRS	156-158
102-46	Defining report content and topic boundaries	About the Report, Appendix 2. Identification of material topics of the Report	16, 158

Index	Indicators	Section of the Report	Page
102-47	List of material topics	Two-page opening Material topics of the Report	12-13
102-48	Restatements of information		
	No restatements were applied		
102-49	Changes in the list of material topics and material topic boundaries	Appendix 2. Identification of material topics of the Report	158
	The list of material topics remained the same as in the Sustainability Report for 2018. The indicator boundaries are specified in the Report and in Appendix 10.		
102-50	Reporting period	About the Report	16
102-51	Date of most recent report		16
102-52	Reporting cycle		16
102-53	Contact point for questions regarding the report		185
102-54	Statement of compliance with the GRI Standards	About the Report	16
102-55	GRI Standards and Indicators Table	Appendix 3. GRI Content Index	159-166
102-56	External assurance	About the Report, Appendices 8 and 9	16, 175, 179
GRI 103. Management Approach 2016			
103-1	Explanation of the material topic and its boundary		
	Explanation of selecting material topics and boundaries is given before the disclosure of data on the material topic or issue		
103-2	The management approach and its components		
	The management approach is disclosed in the Report before information on each material topic.		
103-3	Evaluation of the management approach		
	Management approaches are evaluated within the framework of certification and supervisory audits of relevant management systems, and as part of corporate inspections. Information on those activities is contained in the Report.		
GRI 201. Economic Performance 2016			
201-1	Direct economic value generated and distributed economic value	Appendix 4. Individual GRI Standards and Indicators	167
201-3	Defined benefit plan obligations and other retirement plans	Social policy	134
GRI 202. Market Presence 2016			
202-1	Standard entry level wage by gender in significant areas of operations	Social policy	133
202-2	Proportion of senior management hired from the local community (foreign operations)	Employment and diversity	131
GRI 203. Indirect Economic Impact 2016			
203-1	Infrastructure investments and services supported	External social policy priorities	145
	The indicator is disclosed partially.		

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GRI 204. Procurement Practices 2016			
204-1	Proportion of spending on local suppliers in significant areas of operations	Supply chain	44
	The data are provided for the Russian entities of LUKOIL Group.		
GRI 206. Anticompetitive Behavior 2016			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Ethics and statutory compliance	34
GRI 207. Tax 2019			
207-1	Approach to tax	State Payments Reports	34
207-4	Country-by-country reporting	Ethics and statutory compliance State Payments Reports	34
	State Payments Reports have been published on the corporate website since 2015: https://www.lukoil.com/InvestorAndShareholderCenter/RegulatoryDisclosure/reportonpaymentstogovernments		
GRI 302. Energy 2016			
103-1, 103-2, 103-3	The management approach	Energy conservation	59
	Department responsible – Department of Energy Efficiency and Energy Supply of PJSC LUKOIL		
302-1	Energy consumption within the organization	Energy conservation	62-63
302-3	Energy intensity	Energy conservation	63
302-4	Reduction of energy consumption	Energy conservation	63
302-5	Reductions in energy requirements of products and services	Product quality and customer relations	34
GRI 303. Water and Effluents 2018			
303-1, 303-2	Interactions with water as a shared resource Management of water discharge-related impacts	Water	106
	Department responsible – HSE Department of PJSC LUKOIL		
303-3	Water withdrawal The indicator is disclosed partially.	Water	107-108
303-4	Water discharge The indicator is disclosed partially.	Water	111
GRI 304. Biodiversity 2016			
304-1	Protected or rehabilitated areas	Biodiversity conservation	122-123
GRI 305. Emissions 2016			
103-1, 103-2, 103-3	The management approach	Approaches to managing climate change issues	53
	Department responsible – HSE Department of PJSC LUKOIL		
305-1	Direct GHG emissions (Scope 1)	Goals and indicators	56-57
305-4	GHG emissions intensity (Scope 1)	Goals and indicators	56-57
305-5	Reduction of GHG emissions	Goals and indicators	58

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305-6	Emissions of ozone-depleting substances (ODS)		
	The Company does not use ozone-depleting substances (ODS) on an industrial scale.		
305-7	Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	Emissions	115-116
GRI 306. Affluents and Waste 2016			
103-1, 103-2, 103-3	The management approach		110
	Department responsible - HSE Department of PJSC LUKOIL		
306-1	Water discharge by quality and destination	Water	112
306-2	Waste by type and disposal method	Waste	117
306-3	Significant spills	Pipeline reliability and emergency preparedness	90
306-4	Transport of hazardous waste		
	LUKOIL Group entities do not transport hazardous waste. See the waste disposal methods in the Waste section.		
GRI 307. Environmental Compliance 2016			
307-1	Non-compliance with environmental laws and regulations	Environmental safety program	104
GRI 308. Supplier Environmental Assessment 2016			
103-1, 103-2, 103-3	The management approach	Supply chain	45
	Regulations: Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities; HSE Policy of PJSC LUKOIL in the 21st Century; PJSC LUKOIL Standard Health, Safety and Environment Management System: Contractors Requirements. Department responsible - HSE Department of PJSC LUKOIL		
308-1	New suppliers that were screened using environmental criteria	Supply chain	45
GRI 401. Employment 2016			
103-1, 103-2, 103-3	The management approach	Our employees	131
	Department responsible - HR Policy Department of PJSC LUKOIL		
401-1	New employee hires and employee turnover	Personnel characteristics	129-130
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Social policy	132
	Social benefits are granted to all employees, regardless of the type of employment.		
GRI 402. Labor/Management Relations 2016			
402-1	Minimum notice periods regarding operational changes	Appendix 4. Individual GRI Standards and Indicators	166
GRI 403. Occupational Health and Safety 2018			
403-1	Occupational health and safety management system	Occupational safety	72-73
	Department responsible - HSE Department of PJSC LUKOIL		

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403-2	Hazard identification, risk assessment, and incident investigation	Occupational safety Risk management	32, 78
403-3	Occupational health services	Health in the workplace	86
403-4	Worker participation, consultation, and communication on occupational health and safety	Occupational safety	77
403-5	Worker training on occupational health and safety	Occupational safety	77
403-6	Promotion of worker health	Health in the workplace	86
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Occupational safety	76
403-8	Workers covered by an occupational health and safety management system	Occupational safety	73
	Since the Company has in place an integrated HSE management system certified under ISO 14001 and OHSAS 18001 standards, the proportion of employees covered by this management system is the same in terms of environmental protection management and labor protection management.		
403-9	Work-related injuries	Occupational safety	
GRI 404. Training and Education 2016			
103-1, 103-2, 103-3	The management approach	Training and development	136
	Department responsible - Department of Personnel Assessment and Development of PJSC LUKOIL		
404-1	Average hours of training per year per employee	Training and development	136
	This information is disclosed without breakdown by gender and categories of employees in accordance with Company data collecting system.		
404-2	Programs for upgrading employee skills and transition assistance programs	Appendix 4 Individual GRI Standards and Indicators	166
404-3	Percentage of employees receiving regular performance and career development reviews	Appendix 4 Individual GRI Standards and Indicators	166
	Information is provided without breakdown by gender and categories of employees, as this information is not consolidated and is not used to manage this issue in the Company		
GRI 405. Diversity and Equal Opportunity 2016			
405-1	Diversity of governance bodies and employees	Sustainability and climate change management Personnel characteristics	23, 129
405-2	Ratio of basic salary and remuneration of women to men	Social policy	133
GRI 406. Non-Discrimination 2016			
406-1	Incidents of discrimination and corrective actions taken	Human rights.	35

Index	Indicators	Section of the Report	Page
GRI 407. Freedom of Association and Collective Bargaining 2016			
	The management approach	Human rights. Appendix 6	86, 169
GRI 408. Child Labor 2016			
	The management approach	Human rights. Appendix 6	86, 169
GRI 409. Forced or Compulsory Labor 2016			
	The management approach	Human rights. Appendix 6	86, 169
GRI 411. Rights of Indigenous Peoples 2016			
103-1, 103-2, 103-3	The management approach	Human rights	37
	Department responsible - Regional Communications Department of PJSC LUKOIL		
411-1	Incidents of violations involving rights of indigenous peoples	Human rights	37
GRI 412. Human Rights Assessment 2016			
103-1, 103-2, 103-3	The management approach	Human rights. Appendix 6	86, 169
412-1	Operations that have been subject to human rights reviews or impact assessments	Human rights	86, 169
GRI 413. Local Communities 2016			
103-1, 103-2, 103-3	The management approach	External social policy priorities	144
	Department responsible - Public Relations Department of PJSC LUKOIL		
413-1	Operations with local community engagement, impact assessments, and development programs	External social policy priorities	144
	All the Company's subsidiaries of the business segments "Exploration and Production" and "Refining, Marketing and Distribution" (except for subsidiaries conducting trade operations) have programs in place related to local community engagement		
GRI 415. Public Policy 2016			
GRI 415-1. Political contributions			
	Political contributions - none. Incentive payments to representatives of state authorities - none.		34-35
GRI 419. Socioeconomic Compliance 2016			
103-1, 103-2, 103-3	The management approach	Ethics and statutory compliance	
	Regulations: Antimonopoly Policy Department responsible - International Dispute Legal Support Department of PJSC LUKOIL		
419-1	Significant fines and non-financial sanctions for non-compliance with laws and regulations in the social and economic area	Ethics and statutory compliance	34-35

APPENDIX 4. INDIVIDUAL GRI STANDARDS AND INDICATORS

201-1 (2016) Direct economic value generated and distributed, RUB mln

	2017	2018	2019
Direct economic value generated	6,010,089	8,058,338	7,899,281
Revenue	5,936,705	8,035,899	7,841,246
Income from financial investments	15,151	19,530	25,134
Income from disposal of tangible assets	58,233	2,919	32,801
Distributed economic value	-5,380,245	-7,277,460	-6,991,791
Operating expenses	-3,908,114	-5,297,908	-5,076,133
Wages and salary	-127,851	-135,671	-143,602
Other employee payments and benefits	-1,135	-31,300	-31,366
Payments to capital providers, including:	-166,125	-195,669	-226,376
• dividends paid	-141,499	-160,365	-184,787
• interest paid to creditors	-24,626	-35,304	-41,589
Budget contributions	-1,168,011	-1,608,127	-1,505,086
Societal investment	-9,009	-8,785	-9,228
Undistributed economic value	629,844	780,878	907,490

Notes.

Income from financial investments = Income from interest on deposits + Income from interest on loans issued + Other financial income.

Income from disposal of tangible assets = Income from sale and disposal of assets.

Operating expenses = Operating expenses + Cost of purchased oil, gas and refined products + Transportation expenses + Selling, general

and administrative expenses - Wages and salaries - Other employee payments and benefits + Exploration expenses.

Wages and salaries = Labor pay (including labor pay, estimated liabilities, compensation and incentive payments, pension insurance, voluntary health insurance, voluntary accident insurance).

Other employee payments and benefits = Employee reward program payments.

Dividends paid = Dividends paid on Company shares + Dividends paid to non-controlling interest holders.

Interest paid to creditors = Interest expense + Other financial expenses.

Budget contributions = Taxes (other than income tax) + Excise taxes and export duties + Current income tax.

Societal investment = Charity expenses.

GRI 102. General information

102-13 Membership of associations

The Company is a member of a number of trade and professional associations, including:

- The National Council for Professional Qualifications under the President of the Russian Federation
- The Council for Professional Qualifications in the Oil and Gas Industry of Russia
- Russian Union of Industrialists and Entrepreneurs (RSPP)
- The Airport Civil Aviation Association - LUKOIL-AERO is a member
- The Bulgarian Oil and Gas Association
- The Macedonian-Russian Chamber of Commerce and Industry, the Chamber of Commerce of Montenegro
- The National Oil Committee of Serbia, which is a member of the WPC (World Petroleum Council)
- The Association of Fuel Distribution Companies of Turkey (ADER). Akpet GAZ A.S. and Lukoil Eurasia Petrol A.S. are members of the organization
- The Association of Oil and Petroleum Product Distributors of Montenegro
- The Union of Energy and Extractive Industry of Montenegro - LUKOIL Montenegro DOO is a member

of the Management Board of the organization

- The Union of Oil Companies of Serbia. Representatives from LUKOIL SERBIA PLC Belgrade hold positions in the management bodies; the subsidiary is an active participant in all the organization's undertakings
- The Turkish LPG Association (Türkiye LPG Derneği) and the Union of Chambers and Commodity Exchanges of Turkey (TOBB). LUKOIL subsidiaries participate actively in discussions of practical issues related to the development of the Turkish gas market
- The Belgian Petroleum Federation
- The Croatian Energy Regulatory Agency (Hrvatska energetska regulatorna agencija). LUKOIL Croatia Ltd. does not occupy a position in the management bodies and regards its membership as strategic
- The Croatian Chamber of the Economy (Hrvatska gospodarska komora) - LUKOIL Croatia Ltd. does not occupy a position in the management bodies and views its membership as strategic
- The Netherlands Organization for the Energy Sector.

102-41 Collective bargaining agreements

The Company's obligations to its workforce are set forth in the Social Code of PJSC LUKOIL, specified in the course of collective negotiations with trade-union organizations, and enshrined in the Agreement between the Company and the Trade Union Association of Public Joint-Stock Company LUKOIL Oil Company for 2015-2020, as well as in internal regulations. The freedom of collective negotiations is set out in the following clauses of the Agreement:

- "2.5.7. To provide representatives of trade-union organizations with the ability to participate in the work of the management bodies of the controlled organizations."
- "2.5.9. To adopt internal regulations and decisions with due consideration for the opinions of (by agreement with) the union committee (council) of the corresponding trade-union organization in cases stipulated by the Russian Labor Code, the Industry Agreement, this Agreement, and the collective agreements of the controlled organizations."

Trade unions are also granted the right to participate in management decision-making processes on an equal basis with the Company's management.

GRI 404-3. Percentage of employees receiving regular performance and career development reviews

Performance reviews are conducted with respect to PJSC LUKOIL employees.

Indicator	2017	2018	2019
PJSC LUKOIL employee headcount, people	2,331	2,351	2,406
Total PJSC LUKOIL employees who received an official performance review, people	2,109	2,121	2,210
Percentage of the total number of PJSC LUKOIL employees	90%	90%	92%

402-1 Minimum notice periods regarding operational changes

Region	Minimum notice period
Belgium	3 months
Russia, Azerbaijan, Bulgaria, Moldova, Serbia, and Uzbekistan	2 months
Austria	6 weeks
Germany, Switzerland, Italy, Macedonia, Norway	1 month
Romania	For specialists 20 days; for executives 45 days
Finland, Turkey	14 days
Kazakhstan	15 business days or 1 month
Belarus	7 days (in the event of staff reductions or the liquidation of the enterprise - 2 months)
Egypt	1 week
Georgia	3 days
Iraq, Montenegro, Mexico	No notice period is established for employees
The USA	No universal period has been established for substantial changes to working conditions, however, under certain circumstances the law may prescribe special procedures and periods. For example, during mass staff reductions, a notice period of at least two months

404-2 Programs for upgrading employee skills and transition assistance programs

Type of training	Training programs and courses
In-house training courses	DLS: over 300 educational courses on the following topics: Quality Management and Lean Manufacturing, Organizational Change Management, Project Management, Management, Personal Effectiveness, Foreign Languages, Corporate Spirit, IT Courses (Outlook, Excel, PowerPoint), Public Speaking and Presentations, People Management, Human Resources Management, Effective Negotiations, Production Orientation, Oil Product Supply, Risk Management, IT Security, Civil Defense and Emergency Protection, Industrial Safety, Occupational Safety, Fire Safety.
External training or education	Professional retraining, education in MBA, EMBA, DBA programs. The Company pays 50% of the cost of employee education. If the employee receives an additional professional education, including a postgraduate degree, where the employer is not the initiator, then educational leave is granted, and the respective employee receives a guarantee that they will not lose their positions while studying.

APPENDIX 5. INDIVIDUAL BASIC INDICATORS AND RSPP SUSTAINABILITY INDICES INDICATORS

Economic effect of the implementation of the Energy Conservation Program, RUB mln

2017	2018	2019
1,184	1,165	1,445

Percentage of employees covered by the management systems certified to be compliant with the ISO 14001 and OHSAS 18001 standards

2017	2018	2019
79%	84%	83%

Remuneration to the Board of Directors and Management Committee’s members, RUB thousand

Remuneration	2017	2018	2019
Members of the Board of Directors	262,091	816,787	208,784
Members of the Management Committee	1,738,788	5,502,415	1,684,611

APPENDIX 6. HUMAN RIGHTS

As an international company operating in countries with different political systems and cultural traditions, LUKOIL recognizes the importance of respect for and observance of fundamental human rights and is guided by the provisions of the UN Universal Declaration of Human Rights. Our commitments and rules of engagement with local communities and indigenous peoples in the regions where we operate (including consultation activities) are set out in the following documents:

- Code of Business Conduct and Ethics of PJSC LUKOIL;
- Global Framework Agreement between IndustriALL Global Union¹, the Russian Oil, Gas and Construction Workers’ Union, PJSC LUKOIL and the IATUO of PJSC LUKOIL;

- Agreement between the Company and the Trade Union Association of Public Joint-Stock Company LUKOIL Oil Company;
- Agreement between PJSC LUKOIL and the IATUO of PJSC LUKOIL for the foreign entities;
- The Social Code of PJSC LUKOIL.

These commitments cover all the areas of the Company’s activity and involve informing partners with whom LUKOIL Group entities interact.

The Company has also adopted the relevant provisions of the voluntary Extractive Industries Transparency Initiative (EITI²).

¹ Source: <http://www.industriall-union.org/ru/archive/icem/globalnoe-ramochnoe-soglasenie-mezhdu-icem-i-lukoil> . IndustriALL monitors the observance of labor rights by global companies operating all over the world.
² Source: <https://eiti.org/>.

Commitments	Compliance with international documents and the United Nations Global Compact	Code of Business Conduct and Ethics of PJSC LUKOIL	Global Framework Agreement with IndustriALL	Social Code of PJSC LUKOIL
No child labor, forced and compulsory labor	ILO Conventions No. 29, 105, 138, 182 Principles 4, 5 of the United Nations Global Compact	•	•	•
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	ILO Conventions No. 87 and 98 Principle 3 of the United Nations Global Compact	•	•	
Recognition of equal opportunities for men and women, equal payment for equal work, no discrimination	ILO Conventions No. 100, 111 EITI	•	•	•
Recognition of the value of family relations, support for working women	ILO Convention No. 156		•	•
No discrimination on any grounds (hiring, labor pay, career development, retirement, gender, race, religious beliefs, etc.)	ILO Convention No. 111 Principle 6 of the United Nations Global Compact	•	•	•
No violence in any form		•		
Compliance with the working time standards	ILO Conventions No. 47, 106, 132, 171	•	•	
Maintenance of favorable working conditions, workers' health, sanitary and hygienic standards (access to clean water, hot meals, sanitary conditions)	ILO Conventions No. 155, 161, 187	•	•	•
Attention to security issues (including protection of personal data and protection of employees from criminal encroachments and pressure)	UN Universal Declaration of Human Rights, Article 12	•		

Commitments	Compliance with international documents and the United Nations Global Compact	Code of Business Conduct and Ethics of PJSC LUKOIL	Global Framework Agreement with IndustriALL	Social Code of PJSC LUKOIL
Respect for the rights of local communities, including resource use, environmental conservation, etc.	UN Declaration on the Rights of Indigenous Peoples ILO Convention No. 169 EITI	•		•
Businesses should avoid the resettlement of local residents, where possible, and mitigate the impact on those who have been affected by such measures	International Finance Corporation Performance Standard 5 Land Acquisition and Involuntary Resettlement			•
Compliance with the indigenous peoples' Free Prior and Informed Consent (FPIC) principle when implementing projects	International Finance Corporation Performance Standard 7			
Preservation of national and cultural traditions, values, arts and crafts			•	•
Contribution to the preservation of healthy environment	Principles 7, 8, 9 of the United Nations Global Compact EITI			• HSE Policy of LUKOIL Group
Anti-corruption and bribery Fair access to benefits received from mining operations	Principle 10 of the United Nations Global Compact EITI	• (compliance with contractual terms, payment of taxes)		

APPENDIX 7. ACRONYMS AND ABBREVIATIONS, DEFINITIONS AND CALCULATION FORMULAS

NAMES OF LUKOIL GROUP ENTITIES

Nizhny Novgorod oil refinery - LLC LUKOIL-Nizhegorodnefteorgsintez	Ukhta oil refinery - LLC LUKOIL-Ukhtaneftepererabotka	Perm oil refinery - LLC LUKOIL-Permnefteorgsintez
Oil refinery in Romania - PETROTEL- LUKOIL S.A.	Oil refinery in Bulgaria - LUKOIL Neftochim Burgas AD	Oil refinery in Italy (ISAB) - ISAB S.r.l.

ABBREVIATIONS

APG - associated petroleum gas	ESG - Environmental, Social and Corporate Governance	LLC - limited liability company
CCUS (or CCS) - carbon capture, (utilization) and storage	EOR - CO ₂ -Enhanced Oil Recovery	Media - all types of mass media
CHPP - combined heat and power plant	GHG - greenhouse gases	OJSC - open joint stock company
DLS - distance learning system	GPP - gas processing plant	PPE - personal protection equipment
EBITDA - Earnings before Interest, Taxation, Depreciation & Amortization	HSE - health, safety and environment	RES - renewable energy sources
EITI - Extractive Industries Transparency Initiative	HPP - hydro power plant	STO - standard of an entity
	IMN - indigenous minorities of the North	SPP - solar power plant
	KPI - key performance indicator	TPU - territorial production unit

NAMES OF OTHER ENTITIES AND INITIATIVES

IATUO - International Association of Trade-Union Organizations of PJSC LUKOIL	ACCES - Arctic Climate Change, Economy and Society, a European research project that examines the impact of climate change on shipping in the Arctic region and the main economic sectors of the Arctic states, such as fisheries and oil and gas production.	Climate Action 100+ - Global Initiative Climate Action 100+ (http://www.climateaction100.org/)
ILO - International Labour Organization		GRI - Global Reporting Initiative
ISO - International Organization for Standardization		WWF - World Wildlife Fund
UN - United Nations	CDP - Carbon Disclosure Project	OHSAS - Occupational Health and Safety Assessment Series
PJSC LUKOIL - Public Joint Stock Company “Oil Company “LUKOIL”	SDGs - UN Sustainable Development Goals (the UN 2030 Agenda for Sustainable Development)	
RSPP - Russian Union of Industrialists and Entrepreneurs		

UNITS OF MEASUREMENT

boe - barrel of oil equivalent	toe, kg of oil equivalent - tonne (kilogram) of oil equivalent	CO₂E - CO ₂ equivalent
p. p. - percentage point		

INDICATORS, CALCULATION FORMULAS

Lost Time Accident Frequency Rate, LTAFR = number of accidents / employee headcount for a reporting period × 1,000 employees.	as a result of work-related injury / number of hours worked × 1,000,000 man-hours.	The number of employees dismissed due to turnover includes employees dismissed for absenteeism and other violations of labor discipline, as well as due to the employee's unsuitability for their position because of lack of skill; those who left on their own without serious cause (due to relocation, retirement, care for a child under 14 years of age, etc.) or by agreement between the parties (except for employees who were re-employed during the year).
Lost Time Injury Frequency Rate, LTIFR = number of lost time injuries / number of man-hours worked × 1,000,000 man-hours.	Rate of High-Consequence¹ Work-Related Injuries = number of high-consequence work-related injuries (excluding fatalities) / number of hours worked × 1,000,000 man-hours.	
Rate of Fatalities as a Result of Work-Related Injury = number of fatalities	The turnover rate is defined as the ratio of the number of employees dismissed due to turnover to the average headcount for a reporting period.	

OIL REFINERY YIELD IS CALCULATED USING THE FOLLOWING FORMULA:

Refinery yield= $\frac{Q-(FFO+L)}{Q} \cdot 100\%$	FFO - is the gross amount of furnace fuel oil (fuel oil for sale + liquid fuel for technological (own) needs);	When calculating the aggregated “Oil refinery yield” indicator, the actual volume of oil feed (Q) comprises the feedstock (oil, gas condensate) processed in crude distillation units (Atmospheric and Vacuum Distillation Units and Atmospheric Distillation Units), excluding other types of feed processed in secondary refining processes (in the framework of the intragroup supplies).
where Q - is the actual volume of oil feed processed in crude distillation units (Atmospheric and Vacuum Distillation Units and Atmospheric Distillation Units), as well as received feed from the secondary refining processes (catalytic cracking, delayed coking, etc.);	L - is the amount of irretrievable losses of oil refining, excluding the losses at crude oil electric desalting and dehydration plant.	

DEFINITIONS

Claim relating to the breach of law means an administrative or criminal claim filed against PJSC LUKOIL, its subsidiaries, or PJSC LUKOIL employees or its subsidiaries' employees. Only completed cases in which a final decision has been rendered and which are not subject to further appeal are taken into account. Cases in which the entity was found not guilty are not taken into account in the disclosure of indicators.	Payroll means the indicator calculated in accordance with the instructions for filling out forms of federal statistical monitoring, approved by Order of Rosstat of 12 October 2008 No. 278 with amendments and additions approved by Order of Rosstat of 3 November 2009 No. 240. Payroll includes labor pay to employees in monetary and non-monetary forms accrued by an entity (including personal income	tax and other withholdings) for worked and non-worked time, compensation payments related to the work schedule and working conditions, additional payments and increments, bonuses, one-time incentive payments, as well as regular allowances for food and accommodation in accordance with the methodology for filling in the payroll field in form No. P-4 “Information on headcount and labor pay”.
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¹. High-Consequence Work-Related Injury is an injury having the following consequences: the employee died or was injured, and within six months of being injured the employee is unable to recover, has not recovered his health, or is not expected to recover his health.

Circulating water – means water that is consistently and many times used in processes based on the principle of closed systems without discharging into surface water bodies or sewage systems.

Material claim relating to the breach of law means a claim meeting one of the following criteria:

- 1) an award has become effective within a calendar year bringing PJSC LUKOIL, LUKOIL Group entities and/or their officials to administrative responsibility for the offense provided for in Chapter 8 of the Code of Administrative Offenses of the Russian Federation, with the imposition of the maximum possible fine provided for in the relevant article and/or a sanction in the form of administrative suspension of operations for up to 90 days;
- 2) a court decision has become effective to collect from PJSC LUKOIL, LUKOIL Group entities damages caused to the environment in accordance

with the requirements of the Federal Law “On Environmental Protection”, in the amount not less than the one determined in accordance with the Regulations on Collecting and Processing Data on Material Contingent Liabilities and Uncertainties with Regard to Income Taxes for the purposes of the consolidated financial statements of OJSC LUKOIL for a respective year.

Significant incident with environmental impact means an emergency with environmental impact. An emergency with environmental impact can include destruction of facilities and/or technical devices used at the facilities of LUKOIL Group entities, or any other event resulting in one or a combination of the following environmental impacts:

- 1) pollution of surface and underground water bodies which resulted in exceeding the established standards for permissible impact
- 2) uncontrolled release of hazardous substances – release of a hazardous

substance into the environment not provided for by technical regulations and/or project documentation that has not been restricted or contained by emergency protection systems and/or other systems and means of accident prevention and containment provided for by technical regulations and/or project documentation, or release in the absence of sufficient containment capability in such systems and means in the amount exceeding the threshold values for accidents presented in Tables 1 and 2 of Annex 4 to the Safety Manual “Methodological recommendations for the classification of man-made events in the field of industrial safety at hazardous production facilities of the oil and gas complex” dated 24 January 2018 No. 29, approved by Order of Rostekhnadzor of 24 January 2018 No. 29.

Significant regions of LUKOIL Group’s operation mean regions where the number of employees of one LUKOIL Group entity is 500 or more: 11 regions in the Russian Federation, and Belarus, Bulgaria, Georgia, Iraq, Italy, Romania, Romania, Uzbekistan abroad.

APPENDIX 8



Independent Practitioner’s Limited Assurance Report on Sustainability Report of LUKOIL Group for 2019

To the Management of PJSC LUKOIL

Introduction

We were engaged by the Management of PJSC LUKOIL (“the Management”) to report on Sustainability Report of LUKOIL Group (“the Group”) for 2019 (“the Report”) in the form of a limited assurance conclusion that, based on our work performed, nothing has come to our attention that causes us to believe that Management’s Statement that the Report is prepared, in all material respects, based on the “core” version of the Global Reporting Initiative Sustainability Reporting Standards (“the GRI Standards”) and is free from material misstatement, is not fairly stated.

Management’s Responsibilities

Management is responsible for the preparation and presentation of the Report that is free from material misstatement in accordance with the GRI Standards, and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal control system relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error. It also includes: determining the Group’s objectives in respect of sustainable development performance and reporting, including the identification of key stakeholders groups and their material issues; selecting applicable requirements of the GRI Standards; preventing and detecting fraud; identifying and ensuring that the Group complies with the laws and regulations applicable to its activities; selecting and applying appropriate policies; making judgments and estimates that are reasonable in the circumstances; maintaining adequate records in relation to the information included in the Report; ensuring that staff involved in the preparation of the Report are properly trained, information systems are properly updated and that any changes in the reporting system encompass all key business units.

ROUNDING VALUES

The total values of the indicators given in the Report may differ from the sum of the indicators as a result of rounding.

Engaging entity: PJSC LUKOIL	Audit firm (Practitioner): JSC “KPMG”, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.
Registration No. in the Unified State Register of Legal Entities XXX 1027700035769.	Registration No. in the Unified State Register of Legal Entities 1027700125628.
Moscow, Russia	Member of the Self-regulatory Organization of Auditors Association “Sodruzhestvo” (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.


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Our Responsibilities

Our responsibility is to perform procedures to obtain evidence in respect of the Report prepared by Management and to report thereon in the form of a limited assurance conclusion regarding Management's Statement in respect of the Report based on the evidence obtained.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

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

Our Independence and Quality Control

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

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

Procedures Performed

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

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

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

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

Our procedures included, but were not limited to, the following:


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- inspection of the processes used by PJSC LUKOIL to identify topics and issues material to the Group's key stakeholder groups, with the purpose of understanding such processes in the Group, as well as analysis of information from open sources on topics and issues material to key stakeholder groups of other organizations in the industry, with the purpose of determining the level of completeness of disclosure of such topics and issues in the Report;
- interviews with Management representatives and officers at the corporate center and subsidiaries regarding the sustainable development strategy and policies regulating material issues in areas of importance for the Group, stage of implementation of such policies, and procedures for collecting information on sustainable development;
- interviews with employees of the corporate center and subsidiaries responsible for providing the information for the Report;
- conducting procedures at the level of the following subsidiaries:
 - LLC LUKOIL-West Siberia, Kogalym;
 - LLC LUKOIL-Komi, Usinsk;
 - LLC LUKOIL-Yugnefteprodukt, Krasnodar,
 - LLC LUKOIL Uzbekistan Operating Company, Tashkent,
 which were selected based on risk analysis using qualitative and quantitative criteria;
- comparing the information presented in the Report with data from other sources to determine its completeness, accuracy and consistency;
- assessing the completeness of qualitative and quantitative information on sustainable development against recommendations of the GRI Standards;
- reading and analyzing information on sustainable development included in the Report to determine whether it is in line with our understanding and knowledge of the Group's sustainable development activity;
- recalculation of quantitative data and inspection of underlying documentation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Criteria Used

To evaluate the Report, GRI Standards were used which are available at the link: <https://www.globalreporting.org/standards/>

Management's Statement

Management states that the Report is prepared, in all material respects, based on the "core" version of the GRI Standards and is free from material misstatement.

Inherent Limitations



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Due to the limitations inherent in any internal control structure, it is possible that errors or irregularities in the information presented in the Report may occur and not be detected. Our engagement is not designed to detect all weaknesses in the internal control system over the preparation and presentation of the Report, as the engagement has not been performed continuously throughout the reporting period, and the procedures were performed on a test basis.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Based on the procedures performed and described in this report, nothing has come to our attention that causes us to believe that Management's Statement that the Report is prepared, in all material respects, based on the "core" version of the GRI Standards and is free from material misstatement, is not fairly stated.


Oussov A.I.
JSC "KPMG"
Moscow, Russia
26 June 2020



APPENDIX 9. CONCLUSION OF THE BOARD OF NON-FINANCIAL REPORTING OF THE RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS ON THE PUBLIC ASSURANCE REVIEW RESULTS OF THE SUSTAINABILITY REPORT OF LUKOIL GROUP FOR 2019

The Board of Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (hereinafter, the Board), established in accordance with a decision of the Administrative Office (Resolution dated 28 June 2007), have reviewed, at the initiative of PJSC LUKOIL, the Sustainability Report for 2019 (hereinafter, the Report) of LUKOIL Group (hereinafter, the Company, Group, LUKOIL).

The Company requested that the Board perform a public assurance review of the Report. The Board forms an opinion on the relevance and completeness of the information disclosed in the Report relating to the Company's performance, in accordance with the principles of responsible business practice set out in the Social Charter of Russian Business, and whether the Report complies with the provisions of the UN Global Compact, as well as Russian and international social responsibility standards.

In the period from 11 June to 26 June 2020 members of the Board studied the contents of the Report submitted

by the Company and prepared this Conclusion in accordance with the Regulations for the Public Assurance Review of Corporate Non-Financial Reporting approved by the Board. Members of the Board have the necessary expertise in corporate social responsibility, sustainability, and non-financial reporting, comply with ethical requirements pertaining to independence and objectivity, and express their personal opinions as experts, and not the opinion of the organizations that they represent.

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

Information is considered relevant to the extent that it reflects the Company's activities in implementing the principles of responsible business practices disclosed in the Social Charter of Russian Business (www.rssp.ru).

Completeness implies that the Company has comprehensively presented its activities in the Report - its underlying

values and strategic benchmarks, governance system and structure, achievements and key performance results, and its system of interacting with stakeholders.

The application by the Company of the international reporting system is taken into account during the public assurance review of the Report. However, confirmation of the Report's level of compliance with international reporting systems is outside the scope of this Conclusion.

The Company is responsible for the information and statements contained in the Report. The reliability of the data contained in the Report is not the goal of this public assurance review.

This Conclusion has been prepared for the Company, which may use it for internal corporate purposes, as well as for communications with stakeholders, publishing it without making any changes.

CONCLUSIONS

Based on a review of the Report, public information posted on the official corporate website of the Company, and a collective discussion of the results of the independent assessment of the Report conducted by the members of the Board, the Board confirms the following:

The LUKOIL Group Sustainability Report for 2019 contains relevant information on key areas of responsible business practices, in accordance with the principles of the Social Charter of Russian Business, and discloses sufficiently complete information about the Company's activity in these areas.

The recommendations of the Board, based on the results of the public assurance review of the Company's previous report for 2018, are reflected in the 2019 Report. In particular, the procedure for identifying material

topics for disclosure in the Report is described in sufficient detail, information is provided on procedures for assessing environmental and social aspects of suppliers and contractors activities as part of tender processes, and on effects of digitalization on the Company's sustainable development are described in more detail. Information on foreign entities, including environmental issues, is expanded.

The 2019 Report of the Company contains relevant information on the following aspects of responsible business practice:

Economic freedom and responsibility:

The Report discloses key financial and production indicators and the events and results of the year. The Company's structure and geographic coverage are described in the Report, as well as the expansion of the Company's

operations in foreign projects. The Report presents the Strategic Development Program of LUKOIL Group for 2018-2027. Information on commissioning of a lubricant plant in Kazakhstan, completion of the Belorechenskaya HPP reconstruction project is reported. The Report outlines the global trends of the industry development and examines the opportunities for growth in the context of transitioning to a low-carbon economy. The Company's production chain from oil and gas production to distribution of products and services, including electric power and heat, is described. Information on the implementation of the operational efficiency improvement programs, digitalization and investment program is also presented. The corporate governance and sustainable development risk management structure is described. The quality management system and compliance of a number of the Group's

entities with the requirements of the ISO 9001:2015 international standard are reported. The report notes that sustainable development issues are included in the Board of Directors agenda, and that sustainable development management function is introduced to Vice President for Sustainability and the Management Committee, and that the decision to develop long-term climate goals was made. Information is provided on the four strategic objectives of the Group in the area of sustainable development, which are identified as priorities and correlate with the UN's 11 Sustainable Development Goals and 15 targets. The activities of the Business Ethics Commission are described. The characteristics of the corporate integrated management system are provided. The results of the work of the Health, Safety and Environment Committee are presented. The Report also lists the Company's response to the coronavirus COVID-19 pandemic in the regions of its operation in the Russian Federation and abroad in the first half of 2020.

Business partnerships: The Report describes the activities and mechanisms related to interactions with various stakeholder groups. It is stated that the Company seeks to build long-term constructive relationships based on the principles of partnership, transparency and disclosure. The Company is reported to interact with government bodies and business partners in Russia at federal, regional and local levels, and to participate in an international dialogue on industry development issues. The participation of the Company's representatives in expert assessments of draft laws, the work in advisory groups and expert platforms on the environmental protection issues of, greenhouse gas emissions regulation, charity and labor relations are highlighted. The Report describes the main events of the reporting period with regard to interaction with shareholders, suppliers and contractors, clients and employees. The new Shareholder Relations Policy of PJSC LUKOIL is introduced. Information is provided on the Company's interaction with representatives of the investment and financial communities as part of investment events in different countries, and the use of feedback channels. The key principles

of the Company's HR and social policy are outlined. The Report highlights the social partnership system and indicates the coverage of employees under collective bargaining agreements. It is reported that the Company has a system of requirements to contractors and suppliers regarding their observance of sustainability standards in place, and information on the Company's relating control mechanisms is provided. The Report describes the mechanisms for client engagement. Information on feedback channels and monitoring their satisfaction is provided. The Report contains information on audits of the Company's production sites by clients. The Report highlights the Company's membership in international and Russian associations and unions, and its participation in international conferences.

Human Rights: It is stated in the Report that the Company provides zero tolerance to discrimination against employees on any grounds, and observing human rights and freedoms the Company adheres to international documents and to the legislation of the countries, where it operates. Corporate documents that set out the principles of safeguarding human rights – the Code of Business Ethics and the Social Code of PJSC LUKOIL – are mentioned. The Report contains information on the observance of labor rights of workers, including education and development activities, improving working conditions and occupational safety. The activities of trade unions are highlighted, as well as the cooperation with the International Association of Trade Union Organizations of PJSC LUKOIL, the International Trade Union Organization INDUSTRIA, and the International Labor Organization. The mechanism for addressing complaints and suggestions by workers is described. The Report comprises information on HR audits conducted to monitor compliance with employment rights at the Group's entities. Information is provided on the engagement with representatives of Indigenous Minorities of the North concerning decision-making on projects that affect their rights, the implementation of projects in support of Indigenous Minorities of the North, and on the costs for these purposes.

Environment protection: The Report discloses that the Company has

implemented the Environmental Safety Program for 2019-2021, including measures for the rational use of associated petroleum gas and for the reliability of pipeline transportation. Information is provided on the approval of a new Program for industrial safety, improvement of working conditions and safety, prevention and liquidation of emergency situations of the Group's entities for 2019-2021. The Report notes the approaches and the progress achieved in managing climate change issues, as well as the decision to integrate climate matters into the Strategic Development Program of the Group. The Report states that the HSE Management System has been certified for compliance with ISO 14001 and OHSAS 18001 standards, and the transition to ISO 45001:2018 (instead of OHSAS 18001) is planned in 2020. The Report provides information on implemented measures aimed at wastewater treatment in oil and gas production entities, at preserving biodiversity for facilities operating in the Arctic zone of the Russian Federation. It is reported on the collaboration with protected natural areas and with social environmental organizations, and on the hotline on environmental issues in place. The main goals and directions for implementing the Company's projects related to the renewable energy sector are presented, information on participation in partner projects is provided. It describes projects designed to mitigate the adverse impact on the environment, and to reduce or recycle waste. The Report contains information on the Company's successful testing of the Russian technology "Beluga" for underwater pipe repair. The principal approaches to solving the problem of sustainable water use are described and measures to optimize water consumption and to launch new water recycling systems are presented. The Company's activities on biodiversity conservation are highlighted. A wide range of gross and specific indicators of the environmental impact is presented, including indicators on the atmosphere, on water resources, and on greenhouse gas emissions. It is noted that during the reporting year LUKOIL became a member of the Working Group of the Russian Ministry of Natural Resources for the implementation of the federal project "Conservation

of Biological Diversity and Development of Ecotourism". Energy consumption and energy efficiency data, and environmental expenses in Russia and foreign entities are provided. The implementation of projects under the World Bank's "Zero Routine Flaring by 2030" initiative is reported.

Participation in the development of local communities: The Report discloses the Group's external social policy directions in regions, and the mechanisms used, including partnerships with authorities as part of cooperation

CONCLUDING REMARKS

Overall, the Report provides a full picture of the responsible business practices of LUKOIL Group, its strategies and governance system, and the Company's impact on society and the environment. The Report applies an integrated approach to disclosing information across key lines of business, including a substantial number of performance indicators related to the economic, environmental, and social aspects. The Report shows the extent to which the Company's performance complies with the UN's Sustainable Development Goals and the objectives for their implementation, which are in line with the Company's own strategy benchmarks. The Company is consistently

RECOMMENDATIONS

While noting the merits of the Report, the Board draws the Company's attention to a number of aspects that are important for stakeholders relating to the relevance and completeness of the information disclosed, and recommends taking them into account in future reporting cycles.

The Board notes that the recommendations, based as they are on an analysis of the Company's previous reports, will prove useful in the future reporting practices of the Group.

The Report contains the analysis and quantitative assessments of the Company's contribution to the achievement of the priority UN Sustainable Development

agreements. The Report highlights the continuing priorities of social activities, as well as the long-term nature of a number of programs and regional projects financed through the LUKOIL Charity Fund and directly by the Group entities. The directions of the main social and charitable programs are listed. The Report presents information on the results of the Social and Cultural Projects Competition held by the Charity Fund together with the Group's entities in Russian regions, on the expansion of the contest geography to Romania. It sets out the criteria used to appraise

expanding the information on sustainable development factors in foreign entities in its reports.

The Report was prepared based on the reporting standards of the sustainable development of the Global Reporting Initiative (GRI Standards), as well as on other Russian and international documents, including: the UN Global Compact, the Social Charter of Russian Business, the Basic Performance Indicators of the Russian Union of Industrialists and Entrepreneurs, the Corporate Reporting Guidelines for Sustainable Development Goals, and the IPIECA Guidelines for Voluntary Sustainability Reporting in the Oil

Goals-2030. We recommend having the results obtained aligned with the implementation of LUKOIL's strategic goals, that the reports include measurable targets for key sustainability areas and SDGs of priority. It would also be practical to highlight the Company's contribution to national projects aligned with the objectives of its corporate programmes and specific results obtained in the subsequent reporting cycles. The presence of this information in reports enhances the social significance of corporate projects, additionally confirming the Company's social responsibility.

The Company holds a leading position on the integration of climate agenda into its activities and aims at contributing

the efficacy of implemented projects. The Report highlights the Company's participation in the All-Russian Cultural and Educational Project "Talents of the Arctic. Children". The Report presents data related to the engagement of young specialists in volunteering activities and the key areas of volunteering campaigns. The implementation of the project "More than just a Purchase" aimed at supporting social entrepreneurs is described. Total costs on social investments in the areas of presence are disclosed.

and Gas Industry, which ensure the consistency of information across a number of reporting cycles as well as comparability with the reports of other companies.

The 2019 Report is the Company's tenth non-financial report, which attests to consistent progress in the development of non-financial information reporting process. The Company uses various methods of independent assessment and of confirmation of the information contained in the Report (professional audits and public assurance), thereby reaffirming its responsible approach to ensuring the quality of the information disclosed.

to addressing climate change while ensuring economic growth alongside. This topic requires constant focus and highlighting in reports, and it is recommended to continue paying attention to it, disclosing information on the Company's actions and achieved results in terms of climate agenda.

The Report contains information on sustainability risk management issues in the risk management. It might be advisable to accompany this information with an assessment of the financial consequences of risk mitigation measures in the future, which would increase the value of the Report for representatives of the investment community, financial institutions and business partners.

The Report notes the systematization of biodiversity conservation measures, and criteria developed to produce tangible results. We recommend that the following reports highlight this work more extensively and demonstrate the achieved results.

In order to provide the completeness of disclosed data it is recommended to supplement the reported information on the extent of the contaminated land rehabilitation further with details of the total land area to be rehabilitated, which will result in better understanding of the Company's tasks and results achieved.

Attention should also be paid to the importance of disclosing information on the amount of landfilled waste, given the importance of these issues for the current environmental agenda. For the same reason, the positive practice of disclosing information about the reliability of pipelines should

be continued. It is also recommended that the data presented in dynamics be accompanied by comments and explanations, in particular, regarding greenhouse gas emissions.

It is recommended to include in the following reports the evidence of feedback of program participants and give examples of their assessments regarding development and implementation of social programs. This information would confirm the effectiveness of the engagement mechanisms with stakeholders used by the Company. Attention should also be paid to enhancing the positive perception of the reporting information via a wider inclusion of feedback examples, including opinions on the Company's performance on topical public issues pertaining to the Company. It would be useful to include information on the Company's responses to various stakeholder requests, including those from investors.

To ensure greater transparency of the process of identifying and selecting material topics disclosed in reports, it is recommended to involve representatives of key stakeholder groups directly in this process in the future, which will allow more accurately considering their current requests and reflect them in the reported data.

The Board of Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs, after issuing a positive assessment of the Report which supports the Company's adherence to the principles of responsible business practices and highlighting the consistent development of the reporting, confirms that the LUKOIL Group Sustainability Report for 2019 has passed public assurance.



The Board of Non-Financial Reporting of the Russian Union of Industrialists



CERTIFICATE

of Public Endorsement of a Corporate Non-Financial Report

Sustainability report of LUKOIL GROUP 2019

**has received public endorsement
by the RSPP Council on Non-Financial Reporting**

A detailed opinion of the RSPP Council regarding public endorsement of the Sustainability Report of LUKOIL GROUP for 2019 has been sent to the Company, which may publish it without amendment and use it both for corporate purposes and for the purposes of stakeholder engagement.

Registration number 159.01.014.01.19

RSPP President

A. Shokhin

Moscow, 2020



APPENDIX 10. REPORTING BOUNDARIES



CONTACT INFORMATION

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The data on future production and investment plans contained in the Report are based on forward-looking information. Such words as "believe", "anticipate", "expect", "estimate", "intend", "plan" and similar expressions indicate the forward-looking nature of the statement. Actual results may differ from expected results, estimates and intentions contained in the forward-looking statements. LUKOIL does not guarantee that the anticipated operating results contained in the forward-looking statements will in fact be achieved. In each case, such statements represent only one of many possible outcomes, and thus they should not be considered as the most likely outcome.