

## Integration of the LUKOIL Group’s sustainability goals and strategy

In the process of creating the LUKOIL Group’s Strategic Development Program for 2018–2027, the core departments, with advisory support from members of

the Board of Directors, determined the Company’s priority and equivalent goals and objectives related to sustainability. In this regard we took into consideration

the global targets listed in the UN Agenda 2030, current oil and gas sector trends, and LUKOIL’s corporate culture.

### STRATEGIC GOALS

We have defined four key strategic sustainability goals up to 2027.

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

We are committed to improving occupational safety, preventing on-the-job injuries, ensuring that our production facilities operate accident-free, and continuously reducing our environmental impacts. In view of the observable global impact of climate change, we include in our priorities a reduction in greenhouse gas emissions.

We have set ourselves the following objectives:

- ongoing improvement of the integrated system for managing occupational and environmental safety
- the use of new technologies in industrial safety and the environment, which allow us to reduce risks and improve the effectiveness of measures performed
- improved working conditions, and developing a safe working culture that facilitates a reduction in on-the-job accidents
- reduced risk of breakdowns, incidents, fires, and emergencies at production facilities
- a constant reduction in adverse environmental impacts (earth, air, water), including greenhouse gas emissions, preserving biodiversity, an increase in the share of products with improved environmental characteristics, and the development of alternative energies
- an improved information security system and safeguarding data against cyber threats

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

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

The main mechanisms for achieving this strategic goal and reducing risks are medium-term targeted programs in which target indicators are clearly outlined. The list of KPIs for incentives includes the integrated indicator “Ensuring the

required level of support for health, safety, and the environment at LUKOIL Group subsidiaries”. In 2017, in order to increase responsibility for attaining this KPI at all management levels, amendments were made to a corresponding internal regulatory document. In particular, in the quarterly assessment we introduced more stringent criteria on aggregate material damages resulting from an accident, and also included a criterion for the absence of accidents.



#### PROJECTED RESULTS:



a reduction in the level of on-the-job injuries



the maintenance of safe working conditions



a reduction in the rate of emergencies



a reduction in adverse environmental impacts

## II. Competitiveness

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

Our goals:

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

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

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

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



### PROJECTED RESULTS:



retaining leading Russian oil and gas sector positions vis-à-vis the efficient application of new technologies



greater efficiency and reduced unit consumption of natural resources, materials, and energy



the setting up of research centers

## III. Social responsibility, a worthy contribution to social development

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

Our goals:

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

The Company acknowledges its responsibility to all stakeholders in the countries and regions where it operates,

pursuing a policy of social responsibility on issues related to labor, employment, and industrial relations; providing assistance to employees, disabled people, and veterans; and engaging in extensive charity and sponsorship work.

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

The main mechanisms for achieving this strategic goal and reducing risks are an effective human resources policy, training and skills development programs, social programs for employees, trade union agreements, collective agreements with employees, agreements with regions, charity programs, and working tirelessly to improve the quality of our products and services.



### PROJECTED RESULTS:



compliance with international norms and the principles of the global initiatives in which the Company participates



more efficient social investment



bolstering relationships with authorities at all levels, with public organizations, and with other stakeholders in the countries in which we operate

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

Our unique competitive advantages form the foundation of this strategy: an extensive resource base, low production costs for traditional sources of energy, extensive experience in implementing large-scale projects, technical expertise, excellent refining efficiency, and a strong financial position.

Our goals:

- stable and organic production growth based on efficiency and value creation
- constantly improving refineries, maximizing free cash flow, and fostering the development of petrochemistry and gas chemistry
- boosting the efficiency of the sales and marketing network and developing priority sales channels
- growth in financial indicators and profit margins
- adhering to a conservative financial policy

- a progressive dividend policy and a balanced distribution of additional funds to shareholders

To achieve these goals we will work constantly to improve efficiency, foster continuous technological development, and maintain an efficient and flexible reinvestment policy.

The successful implementation of our strategy will allow us to retain our competitive advantages, continuously create shareholder value, and boost the Company's investment appeal.

We guarantee to provide all our shareholders with support in relation to rights established by applicable Russian legislation and to the Company's obligations arising from its listings of securities on the Moscow and London stock exchanges.

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



**PROJECTED RESULTS:**

stable development across all business sectors

implementation of a progressive dividend policy and the balanced distribution of additional profits to shareholders

The LUKOIL Group's Strategic Development Program for 2018–2027 can be found on the Company's website



Detailed information on the risk management, internal control and corporate management systems of PJSC LUKOIL can be found in the Annual Report (available on the Company website)



Sustainability goals and objectives are integrated into the Company's overall business strategy, and their attainment is ensured as part of the implementation of targeted programs and development plans in areas of operating activity



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

PJSC LUKOIL President and CEO  
**VAGIT ALEKPEROV**