

MESSAGE FROM THE PRESIDENT OF PJSC LUKOIL

Dear Readers,

I am privileged to be able to present you with our ninth Sustainability Report, in which we inform you about the results of the societal, economic, and environmental performance of LUKOIL Group in 2018. We have highlighted our contribution to attaining the UN Sustainable Development Goals, in line with the strategic benchmarks set by the Company in this area.

2018 was a successful year for LUKOIL: we managed not only to **achieve record-high financial results**, our flagship projects (the V. Filanovsky field on the Caspian Sea shelf in Russia and the Kandym gas processing plant in Uzbekistan) reached planned capacity, and we also **improved key environmental protection** and industrial safety **indicators**, reduced greenhouse gas emissions, and updated our Code of Business Conduct and Ethics, including with regard to human rights observance. The technologies and standards applied by our Company in the field of ecology and industrial safety in some cases surpass international practice. For example, we apply the “zero discharge” principle in all offshore projects, and this approach has been recognized as a model by the Helsinki Commission for the Protection of the Marine Environment of the Baltic Sea Region (HELCOM).

Our primary hydrocarbon production activity helps people in various countries satisfy their ever-increasing demands for electricity, fuel, heating, and petrochemicals, while complying with such UN Sustainable Development Goals as ensuring access to energy sources. We believe that for these purposes both available traditional energy resources and new technological developments should be used. During the reporting year we worked hard to ensure growth in oil production, thanks to **high resource base development rates** in the North

Caspian and the successful extraction of hard-to-recover reserves in Timan-Pechora and West Siberia.

We managed to **boost our resource efficiency performance, by significantly reducing the production of fuel oil**. The construction of the delayed coking complex at the Nizhny Novgorod oil refinery (which began in 2018) will help further improve this indicator. LUKOIL **is continuing with efforts to upgrade its petroleum product portfolio**, through ramping up the production of cleaner and more energy efficient products.

To reinforce our leadership within the industry we have significantly stepped up efforts to increase operating efficiency, optimize costs, and develop new technologies. To this end, I consider it important to set up digital development programs and place great importance on the adoption of the Information Strategy of LUKOIL Group, which will contribute to the solution of these issues across all business segments.

We pay due attention to the level of greenhouse gas emissions: in 2018, **these emissions fell by 4% compared to 2017, while record growth in hydrocarbon production was achieved**. The Program for Rational APG Utilization enhanced the level of beneficial APG use, which reached more than 97% across LUKOIL Group in 2018.

We are working hard to improve the effectiveness of labor and industrial safety measures. **In 2018, the lowest pipeline failure rate was achieved for the last seven years the number of labor injuries among employees of contracting organizations and the total number of injured employees** across LUKOIL Group significantly decreased. I view this as a confirmation of the effective work we



have carried out to implement a culture of safety at our entities. Personnel safety is our priority, and we will continue to do our utmost to achieve the best results in this area.

We have always taken care of our employees and provided them with opportunities to develop their career and competencies. We are committed to making work at the Company interesting for them at all times and to nurturing an environment where talented employees are able to realize their potential. These are precisely the aims of the new leadership concept we have introduced within HR management.

In 2018 we continued to support various charity programs. I am pleased to highlight in this regard LUKOIL Charity Fund and LUKOIL Sports Club: 2018 was an anniversary year for both (25 and 20 years, respectively). In this period these organizations supported many regional projects, sports and art teams, and social and public organizations. We wish to further develop social partnerships and the economic and cultural potential of the regions where we operate.

I am happy to announce that our efforts to improve the quality of our non-financial reporting have been greatly appreciated by industry experts: LUKOIL Group 2017 Sustainability Report won numerous awards in all key competitions and ratings in Russia. This is a testament to the success of our efforts to enhance our reporting and sustainable development management systems.

I do hope that you find the current report to be informative, and that it will contribute to a better understanding of the activities of our Company for all our partners, investors, public organizations, and other stakeholders.

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