

ALWAYS MOVING FORWARD



LUKOIL

SUSTAINABILITY
REPORT
RUSSIAN
FEDERATION

2013-
2014

2013–2014 SUSTAINABILITY REPORT OF LUKOIL GROUP IN THE RUSSIAN FEDERATION

FORWARD-LOOKING STATEMENTS

Some statements in this Report do not represent actual facts, but are only forward-looking statements. Words like “believes”, “supposes”, “expects”, “estimates”, “intends”, “plans” and similar expressions refer to forward-looking statements. Due to their specifics, forward-looking statements are associated with risk and uncertainty. Actual outcomes may significantly differ from planned and target values, expected results, estimates and intentions

contained in forward-looking statements. Forward-looking statements are valid only as of the report publication date. OAO LUKOIL does not guarantee, warrant or predict that its expected performance results mentioned in the forward-looking statements will actually be achieved. In each case such statements represent one of possible development scenarios; for this reason they cannot be treated as the most probable or likely scenario.



OAO LUKOIL IS MEMBER OF THE GLOBAL COMPACT NETWORK RUSSIA
AND THE SOCIAL CHARTER OF RUSSIAN BUSINESS

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OPENING STATEMENT OF PJSC LUKOIL'S PRESIDENT



Vagit Alekperov

President
of PJSC LUKOIL



The never-changing objective of LUKOIL Group are aimed at sustainable development, introduction of technological innovations and implementation of social projects. Judging from our 2014 performance results one can see that the Company has grown stronger, more efficient and has become safer. Today our industry accounts for more than 50% of the export earnings and around 20% of the Russian GDP. Considerable assignments to the state budget coming from the Company as taxes are allocated to scientific, infrastructure upgrade, as well as social and state institutions. By virtue of LUKOIL Group CAPEX major contracts are awarded to Russian enterprises, whole industries are developed. The oil and gas industry retains its leadership positions and serves as a driving force thus creating opportunities to boost up other industries.

The global development trends of the oil and gas industry testify to the fact that in the coming decade development of conventional reserves will account for only 22% of the total production increment, while application of high technology is expected to account for 78% of the production increment volume. To develop and extend our resource base, we have to specially focus on the shelves, fields with hard-to-recover and unconventional reserves.

There is no doubt that it will require cutting-edge technologies and considerable financial resources. However, it is the oil and gas industry that may prove to emerge as the main driving force of yet another technological revolution thus ensuring investments into R&D and experimental design.

Operations on the Arctic shelf will help consolidate efforts of all stakeholders. LUKOIL possesses unique experience and engineering solutions that ensure offshore (including deep-water) production.

It is obvious that the intricate economic conditions, including the oil price drop, sanctions and inflation, affect production and social activity. While analyzing the causes and progress of these complicated processes it is vitally important to timely discover new opportunities and be ready to take advantage of them. Our commitment to evolutionary development helps us in doing so: we set bottom line tasks and correlate them with the actual risks. This approach helps LUKOIL Group to consistently develop and deliver benefits to the society, thus achieving its objectives.

Being committed to sustainable development in the regions, we actively implement our production and investment projects. For instance, while developing the major Filanovskiy oil field in the Caspian Sea, LUKOIL

contracted the Astrakhan Oblast production enterprises to construct field infrastructure facilities and structures. The orders placed by the Company at the Astrakhan shipyards contributed to their upgrade, introduction of innovations enhanced their competitiveness in the global market, helped develop the Astrakhan shipbuilding industry as a whole, created new jobs and increased the amount of tax proceeds to the local budget.

As part of our activities aimed at the production of conventional resources, we not only maintain the output level due to brown fields but also bring green fields into development. The Imilorskoye field was brought into development ahead of schedule during the reporting period. The Filanovskiy field infrastructure development is about to be completed in the Caspian Sea. The Bolshekhetskaya Depression fields will be brought into development in 2016.

As for the power engineering segment, our company has become the first Russian company to have completed construction of facilities under capacity supply agreements; other new and upgraded facilities are being commissioned.

Sales enterprises of LUKOIL Group are being developed. The current market situation calls for the establishment of a new retail business system and application of new approaches.

As far as distribution is concerned, management of around 100 filling stations have already been handed over to private persons. For instance, the total number of LUKOIL's employees at 600 filling stations located in Europe is 120 persons only. The rest of the employees are private persons who lease filling stations. Sometimes the people who work there represent three to four generations of one family. We are convinced that the business that encourages entrepreneurship and ensures personal interest in the work results is much more efficient.

Efficient and balanced team work is considered a key success factor. Stability, lack of social tension and ensuring conditions for full realization of the potential of each employee are considered top priorities for all LUKOIL Group subsidiaries. In 2014, LUKOIL applied special efforts to stabilize the economic and social situation in the regions of its presence.

It is beyond doubt that the main duty of the business community to the state and to the society is to pay taxes honestly. At the same time, if entrepreneurs are in a position to help the state, they should do it. The same is true for charitable projects, corporate social responsibility, as well as investments into construction of socially significant facilities.

Jointly with the Our Future Regional and Social Program Fund LUKOIL promotes social entrepreneurship, while the living philosophy of these projects significantly promotes economic development and helps resolve social issues.

I am convinced that over the past two years we have greatly contributed to further sustainable development of our Company, and in my opinion, it is our team success.

COMPANY OVERVIEW

LUKOIL Group is one of major international vertically integrated energy companies operating in 60 regions of Russia and 34 countries all over the world (including Russia).

OA O LUKOIL is the corporate center of LUKOIL Group. The main subsidiaries of the Company are operating in the Upstream, Downstream, Power Engineering and Transportation segments.

The Company's diversified portfolio of energy resources that includes oil, natural and associated petroleum gas, power engineering assets, and renewables facilitates its gradual development, reliable supply of energy products and contributes to sustainable development of the society. The Company is developing hydrocarbon resources in Russia and abroad.

In Russia, the Company owns four refineries and two mini-refineries, as well as four gap processing plants and two petrochemical enterprises.

Four refineries, part of LUKOIL Group, are operating in Romania, the Netherlands, Bulgaria and Italy. The Company produces a wide range of high quality petroleum products, gas products and petrochemicals, selling them both on a wholesale and retail basis in more than 27 countries of the world.

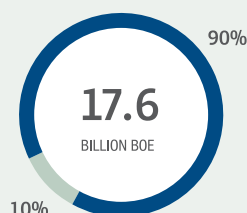
As of 2014 end the sales network of LUKOIL Group comprised 5,782 filling stations (own and leased).

The Company possesses an extensive logistic and distribution network, including in-house offshore terminals.

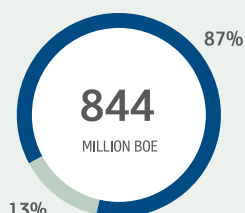
LUKOIL Group operations are mostly located in Russia, in six federal okrugs – Northwestern, Volga, Ural, Central, Southern, and North Caucasian).

MAJOR INDICATORS TO CHARACTERIZE THE SCOPE OF LUKOIL GROUP OPERATIONS

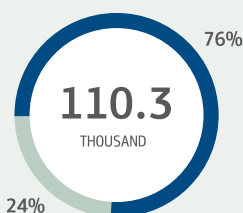
Proved hydrocarbon reserves as at 31 December 2014



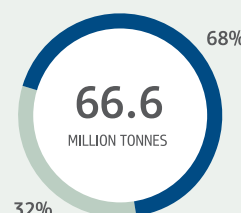
Production of marketable hydrocarbons



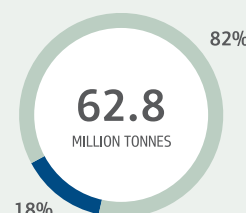
Headcount



Oil refining*



Crude oil sales

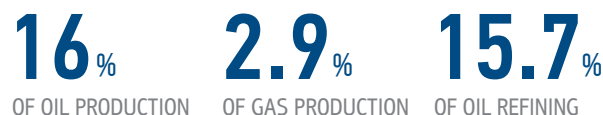


■ Russia ■ International projects

*Oil refining includes data on own and affiliated refineries.

Source: Company data.

LUKOIL IN RUSSIA TODAY IS:



The Company's shares are the blue chips (A1 level) of the Russian Stock Exchange MICEX (JSC MICEX SE, member of the Moscow Exchange Group). Abroad the Company's securities are traded as the American Depositary Receipts (ADR) at the London Stock Exchange (LSE),

Frankfurt Stock Exchange (FSE), Stuttgart Stock Exchange (Börse Stuttgart) and Munich Stock Exchange (Börse München), as well as at the US over-the-counter market (OTC US).

OA O LUKOIL is a member of the UN Global Compact Network Russia and the Social Charter of Russian Business (initiative of the RUIE (Russian Union of Industrialists and Entrepreneurs)). LUKOIL's representatives take part in special events thus promoting a positive practice of corporate responsibility and sustainable development.

¹ The Company changed its name to the Public Joint-Stock Company LUKOIL (PJSC "LUKOIL") to bring it in compliance with the requirements of Chapter 4 of the Civil Code of the Russian Federation. The amendments and supplements to the Articles of the Association of the Open Joint-Stock Company LUKOIL Oil Company also providing for the Company's name change approved by the Annual General Shareholder Meeting on June 25, 2015, were registered on July 06, 2015.

² The Annex "Information about Report" contains a full list of the organizations included into the statement.

MAJOR SUSTAINABLE PERFORMANCE INDICATORS (in the Russian Federation, unless otherwise indicated)

INDICATORS	2010	2011	2012	2013	2014
OPERATING INDICATORS					
Proven hydrocarbon reserves, mln. BOE	15,495	15,628	15,676	15,787	15,826
Oil recovery, ths. tn.	89,767	84,966	84,234	85,481	86,328
Commercial gas cumulative production, mln. cu. m.	13,599	13,174	13,553	13,916	14,031
Primary crude oil processing at refinery, mln. tn.	45.21	45.28	44.43	45.25	45.28
Share of high-octane gasolines in the total automobile gasoline output, % ¹	94.0	97.2	99.1	99.9	100.0
Share of eco-friendly diesel fuel (sulfur content 50 ppm at the most) in the total diesel fuel output, % ¹	76.1	76.0	82.2	93.7	94.9
Lube refining (complete cycle), ths. tn. ¹	1,193	1,151	1,129	1,053	973
Petroleum product sales at the domestic market, ths. tn.	17,999	19,328	20,497	20,593	21,369
Power generation, mln. kWh ¹	13,238	13,063	15,363	15,668	17,145
Thermal power output, ths. Gcal ¹	15,299	15,513	14,670	13,628	14,122
FINANCIAL INDICATORS					
Proceeds from sales (including excise taxes and export duties), USD mln. ¹	104,956	133,650	139,171	141,452	144,167
Capitalization, USD mln. Capitalization is calculated in view of the total number of issued common shares, their price at the MICEX and the USD exchange rate at year end ¹	48,612	44,932	56,019	53,006	33,639
CAPEX in oil refining sector, USD mln. ¹	702	783	1,406	2,184	2,318
Environmental costs, USD mln.	715	718	754	1,322	1,534
HSE					
APG utilization, %	76.8	78.6	87.6	87.7	89.8
Emissions, ths. tn.	795	842	726	736	656
Water discharge, mln. cu. m.	4.8	2.2	2.2	2.3	1.7
Polluted area, ha	296	395	328	243	215
Number of accidents	43	19	30	28	11

Source: Company data.

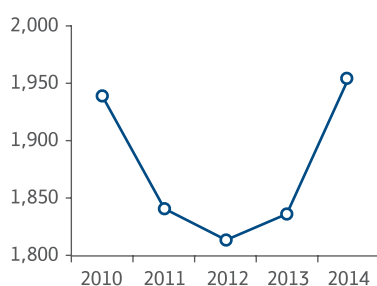
¹ Total, LUKOIL Group.



ACHIEVEMENTS IN THE REPORTING PERIOD

- in 2013 the target value was reached – 100% of the automobile gasolines manufactured by the Company's refineries are high-octane gasolines.
- in 2014 the target value was reached – the associated petroleum gas utilization level came to 95% in the Company's key subsidiaries of the Upstream business segment operating in the Baltic Region and the Lower Volga Region. This value was previously achieved by the enterprises of West Siberia and the Caspian Region.
- In 2013, the negative trend as related to oil average daily production was reversed, as the indicator exceeded the 2010 level.
- The Company entered a new oil and petroleum product market in the Asian-Pacific Region.
- The positive trend as related to major environmental indicators that reflect the scope of the environmental impact of the Company's production facilities is retained.

Oil production by LUKOIL Group, th. barrels per day



Key economic achievements – direct economic value generated and distributed, USD mln¹

GRI INDICATOR EC1	2010	2011	2012	2013	2014
Revenues	104,956	133,650	139,171	141,452	144,167
Income from financial investments	174	211	257	239	275
Income generated by asset utilization	11,533	13,155	14,070	10,247	7,126
OPEX	7,969	9,055	9,359	10,086	10,115
Payments to capital providers	4 535	4,354	6,364	2,871	3,772
Payments to government (taxes)	29,960	38,813	39,240	32,704	31,716
Community investments	263	184	160	145	115

Source: Company data.

Note. Item "Payments to government" includes excise taxes and export duties, current profit tax and other taxes. Item "Payments to capital providers" includes dividends paid out on the Company's stock, dividends paid out to minority shareholders, repayment of long-term obligations, interest payments.

Item "community investments" includes charity and sponsorship, and expenses of the Russian LUKOIL Group organizations on the maintenance of social infrastructure (which is on the balance sheet and included into target financing agreements) to provide social services to current and retired employees.

¹ The table contains overall data for LUKOIL Group (including overseas assets), net of the "Investments into community" item.

ENERGY AND SOCIETY: Strategies and Cooperation

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STRATEGIC DEVELOPMENT PROGRAM

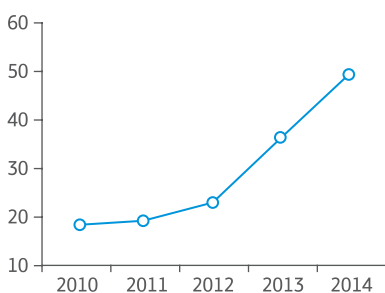
The Strategic Development Program of LUKOIL Group outlines long-range objectives with a 10-year planning horizon, major tasks and expected results for each business segment, as well as analysis of risks and opportunities. The Program is subject to approval by LUKOIL's Management Committee and Board of Directors. The general meeting participants are informed of the approved strategy. The strategic tasks are subject to decomposition to the managerial level through implementation of triennial medium-term plans. Once every three years the Board of Directors approves the adjusted LUKOIL Group Strategic Development Program (latest approved in December 2011); in 2014 the program approval was delayed due to the oil price slump).

As for the long-term perspective, LUKOIL Group is focused on stable growth of the Company's value, as well as on achievement of a high level of environmental, industrial and social security.

Strategic objectives can be achieved through special-purpose investments to production development and upgrade, integration of scientific research and development into production, enhancement of management efficiency, satisfaction of customer needs and quality improvement of products and services, as well as implementation of environmental measures and social policy.

The investment strategy is based on the principles ensuring balanced approach to project planning and implementation in view of the ROC indicator. Due to prudent financial policy the dividend payments have considerably increased over the last decade (*see diagram¹*). In 2013–2014 investment project post-audit methodologies were adopted for the key business segments.

Dividend payout, %



Cumulative effect of changes in share prices and investment income. (Share price of common share at the end of period – Share price of common share at the beginning of period + Dividend per share) / Share price of common share at the beginning of period.

Source: Company data.

SUSTAINABILITY GOALS

Sustainability goals are integrated in the general business strategy, they are solved through implementation of target programs and development plans across business segments.

While developing and approving plans, budgets and investment programs, the Board of Directors considers whether it is feasible to achieve the goals outlined in the Environmental Safety Program of LUKOIL Group organizations, as well as the Policy and Functional Strategy for Personnel Management and charity and sponsorship programs. Control over strategic task handling is exercised at strategic and operational levels.

LONG-TERM STRATEGIC GOALS

According to 2012–2021 LUKOIL Group's Strategic Development Program (SDP) approved by LUKOIL's Board of Directors, the Company has the following strategic development tasks:

- enhanced investment attractiveness and steady growth of shareholder value;
- environmental, industrial, social and personal safety;
- implementation of investment projects with the IRR level above or equal to the approved rate;
- return on capital employed at best peer level;
- complete production replenishment by the reserve increment;
- at least 3.5% average annual hydrocarbon production growth;
- increased share of overseas upstream projects in the free cash flow;
- satisfaction of demand for light petroleum products at strategic markets of LUKOIL Group;
- gradual transaction to mazut-free production brining the configuration of the Group's oil refining organizations to peer level;
- maximization of the Company's value by utilizing integration possibilities.

Starting from 2010, major investments of the Downstream segment are allocated to the development of the Russian oil processing industry. In 2013–2014 conversion units were constructed at the Company's refineries. They will be commissioned until 2015 end (*detailed information is contained in the Sustainable Development of the Russian Regions section*). The Company intends to complete upgrade of its Russian refineries in the coming five years.

OA O LUKOIL's Board of Directors set priority areas in the Company's activities for 2015–2016, including:

- sustainable operation of the Company given the unfavorable macroeconomic situation and remaining competitive in terms of operating efficiency in the international and national sectoral markets;
- continued geologic exploration in West Siberia, Urals-Volga Region, Timan-Pechora province and in Romania to ensure further increment of the Company's resource base.

¹ The stake was calculated in view of the total number of OA O LUKOIL shares and the net profit in the respective period.

The Corporate Governance system outlines the principles of interaction between the Company and its shareholders, general management approaches with regard to the activities of LUKOIL Group and the opportunities granted to the shareholders to exercise control over the activities of the Management Committee.

CORPORATE GOVERNANCE SYSTEM

In 2014, the Board of Directors of the Bank of Russia approved the Corporate Governance Code (hereinafter, the Code), which marked the transition to new corporate governance standards in Russia. This year also saw introduction of the new ZAO MICEX Listing Rules that defined corporate governance requirements for issuers aiming to achieve a certain level of listing.

While introducing the principles and recommendations as part of the Code, in future LUKOIL will consider whether they will produce a positive impact on the Company in terms of its business development strategy, economic efficiency and promptness of decision-making by the Company's management, as well as its investment attractiveness. It will also consider the structure of the Company's Board of Directors and shareholders, the current organizational structure of the Company and distribution of competences among its key employees.

OAO LUKOIL has won the Best Corporate Governance System, Russia, 2015 award as part of the annual contest held by the international magazine World Finance¹.

BOARD OF DIRECTORS

While selecting members of the Board of Directors the Company seeks to maintain the necessary balance between the experience, professional skills, knowledge of the Company's business, as well as independence and objectivity in their judgments and decisions.

The number of independent directors of OAO LUKOIL in 2013 was six persons (more than a half).

In 2014, as the Code and ZAO MICEX Listing Rules were introduced, the independence criteria of directors, as well as the requirements to their number in the Board of Directors and committees changed. The independence of the candidates to the Company's Board of Directors was assessed based on the criteria of the Corporate Code of Conduct of the FCSM, effective as of the assessment date, and the independence criteria of the new Listing Rules that had not come into effect as of the assessment date but had already been published.

Consequently, as of 2014 end, the Board of Directors consisted of: Chairman of the Board of Directors (non-executive director), three executive directors (Company's President, the First Executive Vice President and Vice President for Strategic Development), three directors considered independent according to the Corporate Governance Code and the Listing Rules, one director considered independent according to the Listing Rules and non-executive according to the Code, as well as three non-executive directors.

To better familiarize the Board members with the regions of the Company's operation, the Company has introduced the practice of offsite Board meetings. The meeting dedicated to the development of the Downstream business segment was held in 2014 in Burgas (the Republic of Bulgaria). The Board members were familiarized with the activities of LUKOIL Neftochim Burgas AD. In November, the Board of Directors members visited the V.Grib diamond field in Arkhangelsk.

The Russian and foreign members of the Board of Directors have equal access to information; simultaneous interpreting into the English language is provided at all meetings.

In line with the Regulations on the Performance Assessment of the Board of Directors approved by Board of Directors on April 16, 2012 (Minutes No. 7), as amended by the Board of Directors on December 04, 2012 (Minutes No. 24), in 2013 the employees of OAO LUKOIL Office polled the Board of Directors members in order to assess the activities of the Board of Directors and Committees in 2013–2014. The Board of Directors positively assessed its activities. The poll results also revealed the issues requiring improvement.

Fees and compensations to all Board members are established by the General Shareholder Meeting; fixed rates are applied. Currently non-executive directors do not participate in any long-term incentive programs.

The information on the remuneration amount is included into OAO LUKOIL's annual reports.

The implemented project aimed at centralization, unification and optimization of the electronic preparation, mailing and storage of the Board of Directors and BoD Committee meeting materials, including through introducing a special app which makes it possible to download the meeting materials to the mobile devices of the BoD members is regarded as 2013 achievement in terms of enhancement of the Board of Directors support efficiency.

The Audit Committee, the Human Resources and Compensation Committee and the Strategy and Investment Committee operate as part of the Board of Directors.

OAO LUKOIL prepares and discloses US GAAP annual and interim consolidated financial statements on a regular basis. The Company implements various internal controls at all stages of the accounting process and preparation of its consolidated financial statements, which ensures reliability of the accounting information. The Control and Internal Audit Service operates as well. The Accounting Service also applies its own procedures ensuring extra control. Independent external audit of RAS and US GAAP financial statements is made.

Starting from the 2015 statements, according to the legislative requirements, while preparing its consolidated financial statements the Company will be guided by the International Financial Reporting Standards rather than by the US GAAP.

¹ Forty countries participated in the contest in 2014. While selecting the nominees and winners, the jury evaluated companies across a wide range of criteria, including the governance system, internal and external audits, stakeholder relations, BoD structure and independence, observance of shareholder rights, risk management, information transparency, etc.



The Company also annually publishes corporate governance reports specifying its corporate governance structure, the powers and structure of managerial boards, action plans, the list of issues considered by managerial boards, as well as other data.

CODE OF BUSINESS CONDUCT

The Company has developed the Code of Business Conduct of OAO LUKOIL that includes a set of norms and rules of individual and collective behavior of the Company's employees. This document also regulates the relations between LUKOIL's employees and business partners, shareholders, governmental agencies and public organizations, rules of conduct with regard to environmental protection and industrial safety, prevention of conflicts of interests, as well as other issues.

To implement the Code of Business Conduct, identify violations and take requisite action, the Company set up the Business Conduct and Ethics Commission.

RISK MANAGEMENT

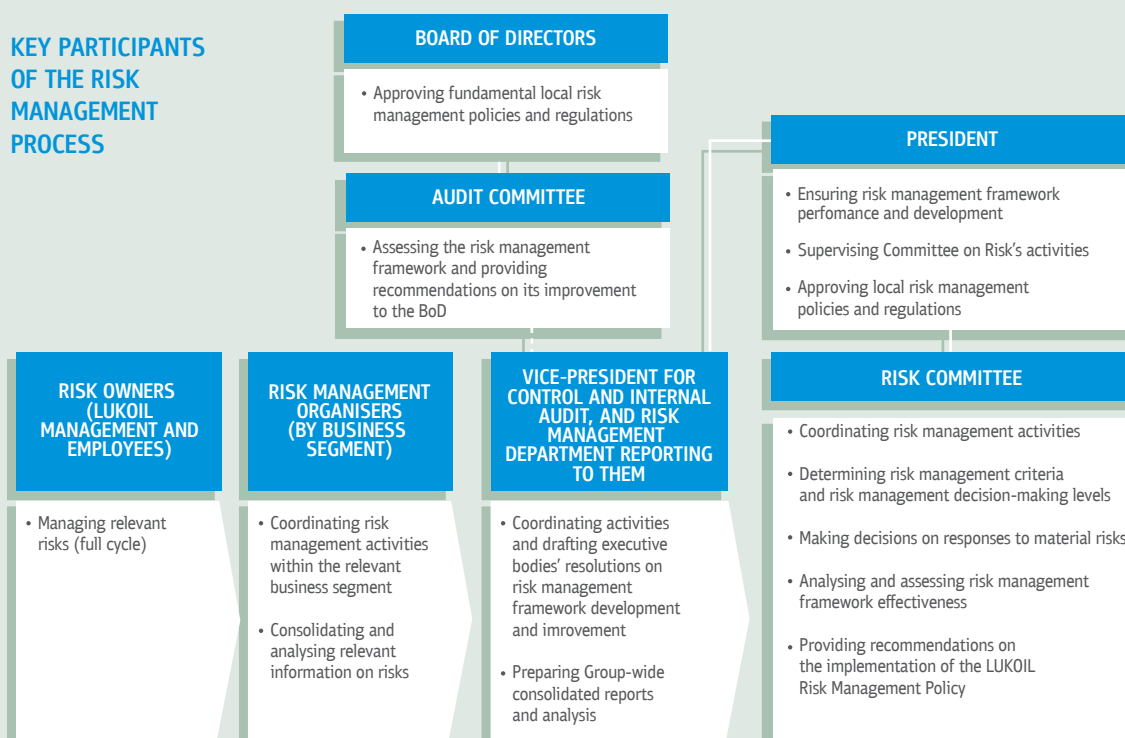
Risk management is considered an integral part of the Company's corporate governance system exercised at all management levels. The Company constantly improves its risk management system.

The Board of Directors Audit Committee is empowered to assess the Company's risk management system and to issue the relevant recommendations to the Company's Board of Directors. The Audit Committee annually submits performance reports to the Board of Directors, which, among other things, includes proposals for risk management system improvement.

In 2011, the Company established the Risk Committee – a collective entity for risk management under LUKOIL's President.

Risk Management Regulations in OAO LUKOIL were adopted in 2013 (Minutes No. 26 of December 2, 2013); The Corporate Risk Management System (ERM) was introduced in 2014. Currently the systems are improved in view of the global best practices.

KEY PARTICIPANTS OF THE RISK MANAGEMENT PROCESS



More detailed information is contained in Corporate Governance Reports (see http://www.lukoil.ru/static/6_Sid_2293_.html) and in the respective section of the corporate website (see http://www.lukoil.ru/static/6_Sid_2116_.html).

¹ Federal Law No. 208-FZ "On Consolidated Financial Statements" of July 27, 2010.

² The document is available at: http://www.lukoil.com/materials/doc/internal-documents/lukoil_corp_code_eng.pdf

STAKEHOLDER ENGAGEMENT

Stakeholder engagement represents one of the components in the system of business process organization.

The key groups of stakeholders are specified in a number of Company's regulatory documents, including:

- OAO LUKOIL's Code of Business Conduct;
- OAO LUKOIL's Social Code;

- OAO LUKOIL's HSE Policy in the 21st Century;
- OAO LUKOIL's Personnel Management Policy.

Interaction with stakeholders is exercised at all levels of corporate governance, with application of a wide range of cooperation mechanisms and forms, corresponding to the nature of issues and scope of tasks being solved, within the scope of mutual interests.

GROUPS OF STAKEHOLDERS	CONSTANT MECHANISMS OF COOPERATION (INCLUDING OBLIGATORY ONES)	OCCASIONAL MECHANISMS OF COOPERATION	FEEDBACK AND RESULTS
Shareholders and investors	Annual and extraordinary general shareholder meetings and statements	Meetings with minority shareholders in RF regions, meetings with investors, participation in investment conferences, interaction with bank analysts, presentations, regional trips, capital days, etc ¹	Feedback system: special phone number, assistance on the part of the Investor Relations Department, etc.
Employees and trade unions	Collective agreement Agreement with the Trade Union Association Internal portal, corporate mass media	Meetings with work teams	Reports on collective agreement execution Feedback system: hot line
Government, regional and municipal administration	Social and economic cooperation agreements with RF regions and municipal entities Presentations and reports on sustainable development (corporate social responsibility and environmental program) Presentations held to introduce the next Environmental Program	Participation in regional and federal programs, conclusion of supplement agreements and MoCs	11 agreements with the RF constituent entities, 25 supplement agreements and 14 MoCs were signed. Regular assessment of cooperation results upon agreement expiration
Business partners and market players	Partnership agreements, participation in industry conferences and business summits, ratings and contests	Cooperation agreements	Fulfillment of contractual terms
Consumers	Customer surveys	Marketing and social campaigns	Hot line, questions to authorized employees
Business and industry associations Public and municipal organizations Residents of the Company's regions of presence	Presentations and reports on sustainable development (corporate social responsibility and environmental program) Presentations held to introduce the next Environmental Program Social and Cultural Projects Contest (held in 15 RF constituent entities) Agreements with the rights holders of the indigenous minorities	Participation in events held by the associations Dialogs with the local representatives of the local communities as part of preparing sustainable development reports Public hearings dedicated to construction and facility reconstruction projects Joint projects	Participation of the general public representatives in biddings Proposals submitted as part of the dialogs Participation in the activities of coordination boards and conferences of the indigenous minorities

¹ Further information can be found in Section "Stakeholder Relations" of OAO LUKOIL 2014 Annual Report, page 71.



Shareholders and investors. Besides relationship forms provided for by the legislation or the market requirements, LUKOIL applies various forms of interaction with this group of related parties. OAO LUKOIL adopted the Shareholder Relations Policy that anchors down the Company's obligations with regard to shareholder rights protection, problem identification and analysis, as well as improvement of the available and development of new forms of interaction. Regional meetings with minority shareholders in the regions are one of such new forms of interaction. The Investor Relations Department is considered to be the responsible subdivision.

Employees and trade unions. In 2014, the 2015–2017 Agreement between the employer and the trade union was signed. The Company makes sure the labor conditions are organized in compliance with the legal rights of employees, and creates the necessary conditions for further training of employees and best practice sharing. The Company implements the programs aimed at support and improvement of the efficient labor and social protection system. Despite the challenging economic situation, no mass dismissals of employees were registered in 2014. Constant efficiency monitoring of the incentive scheme is conducted (*for detailed information please refer to the Personnel Management section hereof*).


Governmental authorities, regional and municipal administration. Social and Economic Cooperation Agreements are the main form of relationship with Russian regions (*for detailed information please refer to the Sustainable Development of the Russian Regions section*).

Business partners. LUKOIL cooperates with major Russian and overseas companies. For instance, the Company maintains longstanding partnership relations with OAO Gazprom. The Company's products are supplied to major engineering, transport and industrial enterprises both in Russia and abroad.

Consumers. The customer-oriented gas station concept was adopted, as part of which mechanisms are introduced to study the consumer opinion, measures to enhance the attractiveness and customer satisfaction are under way.

Communities. The Company interacts with a wide range of public, business, municipal organizations, therefore different cooperation methods are used. Besides the Social and Cultural Projects Contest – the uniform cooperation mechanism applied in all regions of the Company's presence – the Company also applies other forms. For instance, the Company has been the member of the Russian Union of Industrialists and Entrepreneurs for many years. LUKOIL also provides support to leading organizations, such as the Russian Geographical Society with whom a cooperation agreement to promote research and popularize science was signed.

The Company also participates, organizes and sponsors forums, special and regional conferences, round table discussions and other events. Among other things, LUKOIL acts as a permanent sponsor of major economic forums in St. Petersburg and Sochi, large-scale sports events (such as regional and various All-Russia sports competitions, etc.), theater performances, exhibitions, road tours and other events of national significance.

 You can find more detailed information on the contents, issues and collaboration results in the respective sections hereof.



STRATEGY IMPLEMENTATION: Material Events and Outcomes

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OIL



LUKOIL has been improving development of its fields at the license blocks, including those over which it recently received control. By investing into the development of cutting-edge technology and equipment the Company also makes hard-to-get and unconventional resources of hydrocarbons part of its commercially viable production, thus obtaining exceptional experience for Russia.



The reporting period has seen two major events: first oil produced ahead of schedule at the Imilorskoye field (West Siberia) that has complex geology deposits.



The other event was completion of operations at the Filanovskiy field in the Caspian Sea.

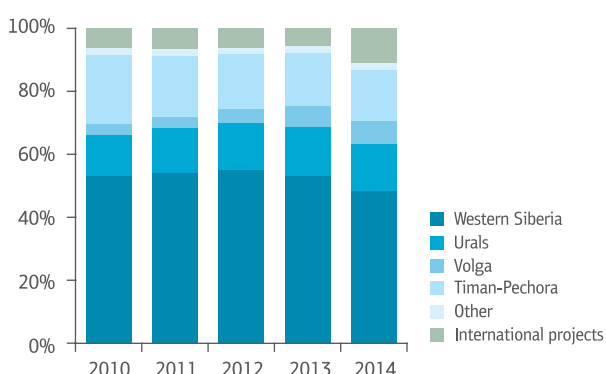
The Y. Korchagin field is already in production. Hydrocarbon production levels at mature fields are maintained so as to make such production effective.

The development processes cover highly viscous and highly watered oils. Potential ways of recovery of oil from the Bazhenov suite is further being looked into.

	2010	2011	2012	2013	2014
LUKOIL Group's production, total	95,992	90,917	89,856	90,807	97,208
Russia	89,767	84,966	84,234	85,481	86,328

Source: Company data.

Regional breakdown of LUKOIL Group's oil production



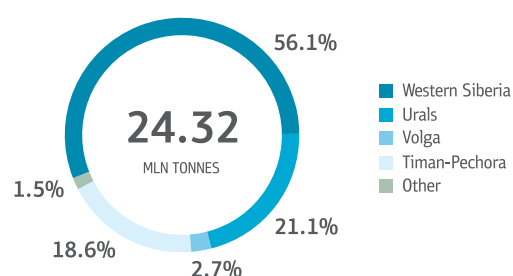
Note. PE – production enhancement.
Source: Company data.

Incremental oil production as a result of LUKOIL Group's application of cutting-edge production enhancement technologies and techniques in Russia, mln. tn

	2010	2011	2012	2013	2014
LUKOIL Group's Production, total	22.16	22.28	23.10	24.44	24.32

Source: Company data.

Incremental oil production as a result of LUKOIL Group's application of production enhancement technologies and techniques



¹ For more details regarding performance and projects please refer to "Sustainable Development of the Russian Regions".

NATURAL GAS

The Bolshekhetskaya Depression reserves (YNAO) form the backbone of LUKOIL Group's gas production. In 2014, the natural gas production at the Nakhodkinskoye field, being the Company's largest field, totaled 8,247 mln. cu.m. There are also plans to put another three major fields into operation (Pyakyakhinskoye, Yuzhno-Messoyakhskoye and Khalmerpayutinskoye). At the St. Petersburg International Economic

Forum OAO LUKOIL and OAO Gazprom signed a new 2014-2024 General Strategic Partnership Agreement. The Parties seek as appropriate to unite their efforts to jointly implement projects aimed at prospecting, exploration, production, treatment, transportation and refining of hydrocarbon raw stock in NAO and YNAO, the Caspian Sea, East Siberia, the Far East and other regions. Cooperation of the two companies goes back over a decade.

Natural gas production of LUKOIL Group , mln. cu.m

	2010	2011	2012	2013	2014
Total production of natural gas	13,936	14,082	15,605	15,875	15,661
Total production of marketable natural gas*	12,770	12,761	14,190	14,362	13,964

* Includes saleable gas, does not include gas injected into formations, in-process losses and gas for own consumption. From 2011, net of the gas used in the production of liquid hydrocarbons at the Company's own gas treatment plants.

Source: Company data.

UTILIZATION OF ASSOCIATED PETROLEUM GAS

More effective utilization and improved recovery of associated petroleum gas (APG) is a crucial element of LUKOIL Group's strategy.

LUKOIL was the first major Russian oil producer to commence actual reduction of APG flaring long before the respective requirements had been formalized and had come into effect.

In 2005, the Company launched its APG effective utilization program (for 2006–2010, 2011–2013, a new program for 2014–2016 was adopted in the reporting period).

Over the ten years¹ of its existence the program helped increase the annual utilization of APG from 7.1 bln. cu.m to 10.5 bln. cu.m, and decrease gas flaring over the same period by 1.9 bln. cu.m down to 1.1 bln. cu.m.

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

Between 2011 and 2014 the Company commissioned over 100 APG utilization facilities, including 18 newly built compressor stations, over 700 km of gas lines, 3 compressor stations for injection of gas into formations, 9 gas turbine power plants and 4 multi-phase pumping stations. *For more info regarding APG utilization in the regions, please refer to the Sustainable Development of the Russian Regions section.*

The 95% level of APG recovery has been reached at the Company's fields in West Siberia, the Baltic Region, the Lower Volga Region, including the Northern Caspian.

Associated petroleum gas production, mln. cu. m

	2010	2011	2012	2013	2014
Total production of associated petroleum gas	7,392	7,941	9,001	9,993	10,483
Production of marketable associated petroleum gas*	5,784	5,276	5,744	6,029	6,004
Utilization rate of associated petroleum gas, %	77.5	79.3	87.6	88.0	90.1

* Includes saleable gas, does not include gas injected into formations, in-process losses and gas for own consumption. From 2011, net of the gas used in the production of liquid hydrocarbons at the Company's own gas treatment plants.

Source: Company data.

¹ New acquisitions of assets in the reporting period have caused changes of the said parameter to be somewhat lower.



ELECTRIC POWER GENERATION



LUKOIL is both a major consumer and producer of electric power. As of now LUKOIL Group's annual consumption of electric power is between 16 and 17 billion kW*hr.

That is roughly as much as is generated by all power plants constituting the Power Generation Business Sector.

LUKOIL's power generation strategy provides for development in the following key areas:

- commercial generation of electric power (reconstruction and upgrading of the existing power generating facilities);
- local generation of electric power at the oil producing and refining enterprises;
- renewable power generation.

Power Generation Performance Indicators (net of small-scale generation facilities)

	2010	2011	2012	2013	2014
Installed capacity of combined heating plants*, MWh	3,715	3,683	4,037	4,293	4,270
Installed capacity of hydropower plants, MWh	297	295	295	298	298
Installed heating capacity, Gcal/h	13,116	11,740	10,909	10,428	10,230
Installed capacity of boiler plants, Gcal/h	2,027	1,910	1,874	1,874	1,774
Electricity output (excluding small-scale generating), mln KWh	13,238	13,063	15,363	15,668	17,145
Heat production, th. Gcal	15,299	15,513	14,670	13,628	14,122

Source: Company data.

Commercial Power Generation

The commercial power generation strategy provides for improved cost effectiveness, reliability and optimization of the operating schedule of the existing boiler houses and power plants.

The Company has completed a large-scale program aimed at commissioning its power generation facilities as provided by the applicable capacity supply agreements (CSA). The final CSA project was commissioned at LLC Stavrolen's petrochemical plant in Budyonovsk in 2014. Between 2011 and 2015 LUKOIL commissioned a total of four power plants with an aggregate installed capacity of 945 MW, which is by 55 MW above the obligations assumed by the Company under the CSA.

Please note that LUKOIL is applying its best efforts to make the cost of heat and power generated by it affordable to the locals, thus contributing to social stability and economic growth in the regions of its presence.

Local (Small-Scale) Power Generation

Following completion of the CSA program, the strategic focus will shift to the supporting and infield power generation facilities, supplying power and heat to the Company's production enterprises.

Over the last five years LUKOIL Group has increased generation of electric power at its production and refining facilities almost threefold.

By developing its local power generation infrastructure the Company is able to address a number of crucial issues, such as the utilization of APG, improved reliability of power supply to consumers, reduction in the cost of energy resources purchased from third parties. It is often the case that in-house generation makes it possible to reduce CAPEX incurred in connection with the need to build new power transmission lines spanning larger distances in case of a capacity shortage in a given region.

The following major generation facilities were built during the reporting period: LLC LUKOIL-Permnefteorgsintez (200 MW GTU-CHP), the Usinskoye field (125 MW GTU-CHP Usa) and the Yaregskoye field (100 MW GTU-CHP Yarega). The investment projects use domestically manufactured gas-turbine and boiler equipment. The efficiency factor of the generating installations matches that of the world analogues. Following their commissioning the in-house power generation facilities will fully meet any demand for power from the Company's production enterprises.

LUKOIL Group's 2015–2017 Investment Program includes the following projects:

- construction of a 200 MW GTU-CHP on the premises of LLC LUKOIL-Permnefteorgsintez;
- construction of a 100 MW power generation center Yarega with phased commissioning – 75 MW (first phase) and 25 MW (second phase);
- construction of a 125 MW power generation Usa center with phased commissioning – 100 MW (first phase) and 25 MW (second phase)

Small-Scale generating and owned power facilities

	2010	2011	2012	2013	2014
Installed capacity of hydropower plants, MW	668	549	661	671	678
Electricity output, mln KWh	1,400	2,201	2,349	2,866	3,273

Source: Company data.

Renewable Energy

The global renewable power industry keeps on developing despite the economic downturn and in a number of respects lives up to the forecast scenarios of analysts and strategic benchmarks of a number of countries. The new industry is one of the incentives for technological, social and economic development of the national economies.

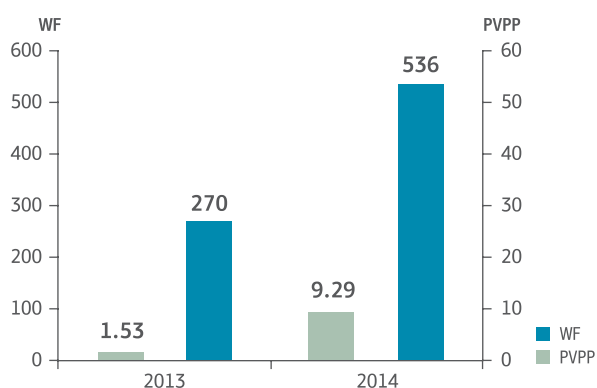
LUKOIL is the only Russian oil company that for almost a decade has been investing into renewable power thus contributing to the development of contemporary generation technologies.

As of late 2014 around 5% of the electricity generated by the Company's facilities was renewables-based.



Most of the renewables-based power is generated by hydropower plants. As a result of the 2008 Power Generation Segment reform, four hydropower plants in Krasnodar Krai and the Republic of Adygea (now part of LLC LUKOIL-Ecoenergo) became part of LUKOIL Group. Seven years of upgrading programs made it possible to increase the generation of power by the power plants by almost 30%. Today,

Power generation by wind farms (WF) and photovoltaic power plants (PVPP) outside of Russia, mln. kWh



Source: Company data.

the key objective of the Company is to continue to repower and reconstruct facilities to boost their reliability and ensure uninterrupted supply of power to consumers.

Beside the hydropower industry, actively developing global industries include solar and wind power generation, with the wind industry growth rate being by far higher. LUKOIL has been making advantage of the favorable environment in the countries, where governments render assistance in this field and implementing major projects for the construction and operation of renewables-based facilities (in Bulgaria and Romania).

DEVELOPMENT OF GREEN GENERATION PROJECTS ABROAD

A 1.25 MW photovoltaic power plant was commissioned in 2011 in Bulgaria. Power generated by it is supplied to the grid and is subject to preferential rate payment. The actual annual PVPP output in 2014 totaled 1.39 mln. kWh.

2014 saw commissioning of LUKOIL's newest (9 MW) PVPP in Romania (Ploiești).

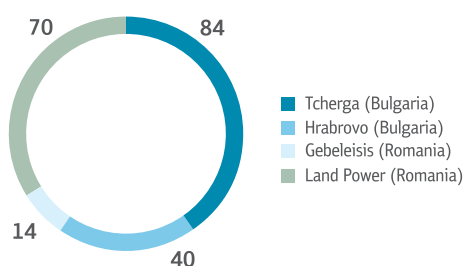
PVPP is situated on the vacant production premises of S.C. Petrotel-LUKOIL S.A. Power generated by PVPP is supplied to the grid and is paid for in line with a special arrangement intended to support renewables projects. All power generated by it is sold on standard terms, in addition to that, one receives green certificates that can be sold on a specialized market, which sharply enhances cost effectiveness. The expected annual PVPP output is 11.9 mln. kWh.

In 2011, an agreement on setting up LUKERG Renew GmbH joint venture was signed. Implementation of wind power projects in Bulgaria and Romania was identified as priority of the joint activities. In June 2012, an active Bulgarian 40 MW wind farm Cherga was purchased. In September 2013 the joint venture acquired two active wind farms: 14 MW Hrabrovo wind farm (Bulgaria) and 70 MW Gebeleisis wind farm (Romania).



In 2013, LUKERG Renew started construction of the 84 MW Land Power wind farm in South East Romania. The wind farm was put in operation in 2014. Thus the aggregate capacity of LUKERG Renew's wind farms is now 208 MW.

Installed capacity of wind farms, mln MW



Source: Company data.

The Company capitalizes both on the experience and competences gained in the course of foreign projects and uses them in Russia. It is currently developing wind farm projects, including those as part of wind-diesel infield complexes in Russia. In 2014, a wind power unit at Ozeroye (a field in Tatarstan) was installed, which helped substantially reduce consumption of diesel fuel and mitigate the environmental impact.

CONSTRUCTION OF A WIND FARM AT OZERNOYE (NIZHNEKAMSKOYE WATER RESERVOIR, TPE TATRITKNEFT, OJSC RITEK)

Ozeroye has been picked due to its relatively mild climate and transport accessibility. Since it is located on multiple islands in the Nizhnekamskoye water reservoir, additional environmental safety requirements were imposed, which called for thorough elaboration of the project. The facility is powered by diesel generators the fuel for which is brought in motor vehicles.

It was decided that in the first stage (prior to 2015) one 35 kW windmill generator (WMG) would be installed. If the project turns out to be successful, new WMGs will be erected and the entire power generation system, including the diesel generator control system, will be upgraded.

Design and procurement stages were completed in 2013, and full-fledged WMG operation began in 2014.

The output at year end met the expectations, and the equipment proved to be reliable.

The first practical steps in renewables were 2009 pilot projects to equip three filling stations in Serbia and Russia with photovoltaic power generation systems.

In September of the same year the Company put in operation its first gas station with a photovoltaic system located in the village of Krasnaya Polyana (Sochi). PVPP modules with a total capacity of 10 kW are installed on the gas station's canopies and are designed to supply power for the gas station's needs.

A renewables competences center for LUKOIL Group's companies that are interested in renewables-based facilities and systems has been set up on the basis of LLC LUKOIL-Ecoenergo.

Application of Cutting-Edge Technologies

LUKOIL has been using cutting-edge technologies that boost energy efficiency of its facilities, including inhouse proprietary developments of the Group's personnel.

The reporting period has seen construction and commissioning of five generating units with an aggregate generating capacity of 928 MW that use state-of-the-art high-yield gas-vapor technology with an electrical efficiency that reaches 57% (which substantially exceeds the electrical efficiency of conventional steam power generating units).

In 2011, at its Romanian CHP LUKOIL-Petrotel commissioned a circulating fluidized bed boiler. The foregoing technology enables efficient combustion of hard fuel, including coke and energy-restricted coal. A history of equipment operations will inevitably affect the prospects of application of such technology by LUKOIL's refining enterprises in Russia.

In 2013, a boiler house in Rostov-on-Don commissioned state-of-the-art gas-piston units with 78% combustion efficiency (given the electrical efficiency of 38%).

The regeneration technology is yet another technology introduced as part of the power plant equipment upgrading program. Additional cooling of the gas-turbine unit in the hot season makes it possible to utilize the plants' capacity more fully.

LUKOIL's professionals have developed a refrigeration technology that uses rejected heat (relevant patents have been obtained). A pilot project has been launched on the basis of a 110 MW steam-gas unit in Astrakhan.

SUSTAINABLE USE OF RESOURCES

2014–2016 ENERGY SAVING PROGRAM



Efficient management of fuel and energy, which accounts for a considerable portion of the operating expenses, is one of the priority goals of LUKOIL Group Organizations.

OA O LUKOIL views improvement of its energy efficiency and energy saving performance in every business segment as its strategic objective.

As part of the energy management system prescribed by ISO 50001:2011 Energy Management Systems – Requirements with Guidance for Use LUKOIL Group Organizations have been developing local regulations providing for integration of energy management practices into the existing business processes.

By the end of 2015, 31 Russian organizations of the Group are expected to have certified their energy management systems in accordance with ISO 50001:2011, while 16 entities have already received the respective certificates.

To meet its strategic goals the Company has developed its 2014 and 2015–2016 Energy Saving Program of LUKOIL Group Organizations (hereinafter referred to as the Energy Saving Program).

Its implementation in 2014 resulted in savings.

Energy Savings from Implementation of the Energy Saving Program at LUKOIL Group Organizations in 2014

POWER	HEAT	BOILER AND FURNACE FUEL	FINANCIAL SAVINGS
97 mln. kWh	186 ths. Gcal	58 ths. tn of oil equivalent	RUB 779 mln.

Source: Company data.

Oil and Gas Production in Russia

In the consumption of fuel and energy by oil and gas producing entities, electric power accounts for 61%, heat for for 4% and fuel for for 35%. The key performance indicator of the business sector is the specific power consumption per measure of produced fluid.

Specific Power Consumption During Production of Fluids

	UNITS OF MEASUREMENT	2012	2013	2014
Specific power consumption during production of fluids	kWh/tn	20.12	20.10	20.14

Source: Company data.

The key areas of boosting energy efficiency in the Russian Upstream include introduction of energy-saving pumping equipment, frequency adjustment of drives and other measures.

Consumption of Purchased Utilities by the Russian Upstream Organizations

ENERGY RESOURCES SUPPLIED UNDER SUPPLY (SALES) AGREEMENTS	UNIT OF MEASUREMENT	2012	2013	2014
Purchased electric power (excluding heat distributed to third parties)	mln. kWh	12,163	11,627	11,654
Purchased heat (excluding heat distributed to third parties)	ths. Gcal	1,078	1,524	3,104

Source: Company data.



Cost advantages of energy conservation activities

ACTIVITY	UNIT OF MEASUREMENT	2012	2013	2014
Power savings	mln. kWh	61.9	75.3	69.6
Heat savings	ths. Gcal	1.9	1.6	2.0
Savings in monetary terms	RUB mln.	191.4	239.2	202.2

Source: Company data.

Downstream and Power Generation

In the fuel and energy consumption of Downstream, Petrochemical, Power Generation and Midstream organizations power accounts for 14.9%, heat for 11.5, and fuel for 73.6%.

The key energy conservation activities of 2014 were replacement and upgrading of the process equipment aimed at boosting its efficiency, optimization of condensate gathering and return systems, replacement and optimization of pumping equipment, upgrading of lighting and heating systems.



Energy Purchased by the Russian Oil Refining Organizations

ENERGY RESOURCES SUPPLIED UNDER SUPPLY (SALES) AGREEMENTS	UNITS OF MEASUREMENT	2012	2013	2014
Purchased electric power (excluding heat distributed to third parties)	mln. kWh	2,542	2,531	2,524
Purchased heat (excluding heat distributed to third parties)	ths. Gcal	3,372	3,328	4,195

Source: Company data.

Cost Advantages of Energy Conservation Activities in the Refining, Petrochemicals, Power Generation and Sales Organizations

ENERGY RESOURCES SUPPLIED UNDER SUPPLY (SALES) AGREEMENTS	UNITS OF MEASUREMENT	2012	2013	2014
Power savings	mln. kWh	34.9	37.4	42.6
Heat savings	ths. Gcal	183.7	181.8	243.3
Boiler and furnace fuel savings	ths. tn of oil equivalent	56.8	92.5	82.9
Savings in monetary terms	RUB mln.	587.6	682.2	782.9

Source: Company data.

IMPROVING OIL CONVERSION AND PRODUCT QUALITY



Owing to its substantial investments into upgrading and renewal of the equipment at its refineries and gas treatment plants, as well as its petrochemical assets, LUKOIL has been continuously investing into improving the hydrocarbons conversion ratio and the quality of its products. Over the last 10 years alone the Company's oil refining investments exceeded 10 bln. USD.

It has implemented solutions providing for construction of catalytic reformers, isomerization units, and diesel fuel hydrotreaters, which enabled the Company to produce top bracket gasolines and diesel fuel with a low concentration of sulfur in the diesel oil cut. New units were built at the Ukhta, Volgograd and Perm refineries, as well as at the catalytic cracker in Nizhniy Novgorod, the largest unit since the Soviet times. A fundamentally upgraded gas processing plant was commissioned in Perm.

As of late 2014 the oil conversion rate of the Company's Russian refineries reached 77.1%

As a result, LUKOIL became the first Russian oil producing company to launch production of Euro-5 motor gasolines and diesel fuel. This is also a way of complying with the requirements set forth in the Program of Russian Refineries Upgrade until 2020 under the four-party agreements made by the Russian Government with the national vertically integrated oil companies.

Future investments will serve the purpose of improving conversion rates at the Russian refineries. A renovation program is currently underway and is due for completion by 2019. The plans for 2015 provide for commissioning of two major complexes, including a second catalytic cracking complex in Nizhniy Novgorod and a petroleum residue recycling complex at the Perm refinery. A Volgograd hydrocracking complex is scheduled for startup in 2016.

This will boost the output of Euro-5 gasolines and Euro-5 diesel fuel, which will help ensure supplies of fuel to the consumer. The existing facilities will be brought into compliance with the up-to-date safety and energy efficiency standards.



LUKOIL GROUP'S REFINERIES HAVE BEEN CONTINUOUSLY ENGAGED IN THE RESEARCH CONDUCTED BY SOLOMON (SOLOMON RESEARCH) SINCE 2004

- Over the entire research period energy consumption has been declining.
- Reliability of equipment has been on the rise.
- The average indicator of LUKOIL's refineries that is indicative of reliability – Mechanical Integrity – is above the industry average.
- The Personnel Index that shows the level of effort put into production of fuels has also been consistently decreasing.
- In terms of their operating expenses, LUKOIL Group's refineries consistently find themselves in the first quartile (group of refineries with the lowest OPEX). A minor growth of the operating expenses over the research period was brought about by inflation-related factors and corresponds to the industry's trends.

Refinery throughputs at LUKOIL Group refineries, mln tonnes*

	2010	2011	2012	2013	2014
Throughputs	66.18	64.93	66.06	66.34	66.56
Russian refineries	45.21	45.28	44.43	45.25	45.28
Including mini-refineries	0.19	0.16	0.17	0.17	0.16

* Including refining at ISAB from December 2008 and on, and at Zeeland starting September 2009 (as per Company's share).

LUKOIL gladly encompasses new technologies and carries out its activities in pursuance of the two main development principles, including adaptation of the global cutting-edge technologies to suit the Russian production and refining environment, and elaboration and introduction of in-house technologies.

Investment into future opportunities, including new technology, for gradual reduction of the specific consumption of natural resources, materials and energy with the highest possible output of products is perceived by LUKOIL as its strategic priority. The Company is committed to searching for and applying new technology, which it believes to be one the major prerequisites not only for its own development, but also for the country's development, which creates a win-win situation for everyone.

The following are the factors that contribute to successful resolution of the said problems:

- well developed infrastructure for scientific research;
- prospective planning of operations;
- implementation of innovation projects;
- international cooperation.

The profits resulting from sales of products of LUKOIL Group's research and design organizations came close to RUB 900 mln.

LUKOIL GROUP'S RESEARCH AND DESIGN COMPLEX INCLUDES:

- two lead institutes of Upstream and Downstream;
- 7 branches in the regions of the Company's operations.

The complex' entities employ over 4000 personnel.

General management of the research and design is conducted by the Department for Industrial Safety, Environment, Research and Technology of OAO LUKOIL.

RESEARCH AND TECHNOLOGY BOARD

Research and Technology Board, a dedicated deliberative body, has been established under the President of OAO LUKOIL. Its members are competent experts in research and technical support, production, economic and management.

The Board is responsible for identifying the prospective development objectives of LUKOIL Group Organizations in terms of research and technology, issuing proposals and recommendations on strategic matters and development of science and technology, improvement of production and performance indicators, reduction of operating expenses, including without limitation via introduction of resource- and energy-saving technologies.

RESEARCH AND TECHNOLOGY PROGRAM

The Company has adopted its 2015 research and technology coordination program of LUKOIL Group, accommodating over 750 topics and about 6 bln. RUB worth of financing.

RESEARCH AND DESIGN COMPLEX OF LUKOIL GROUP

PJSC LUKOIL DEPARTMENT FOR INDUSTRIAL SAFETY, ENVIRONMENT, RESEARCH AND TECHNOLOGY

UPSTREAM	DOWNSTREAM
LLC LUKOIL-ENGINEERING	OJSC LUKOIL-NIZHEGORODNIINEFTEPROEKT
KOGALYMNIPINEFT BRANCH	ROSTOV-ON-DON BRANCH
PECHORNIPINEFT BRANCH	BURGASNEFTEPROEKT
PERMNIPIINEFT BRANCH	
VOLGOGRADNIPIMORNEFT BRANCH	
KALININGRADNIPIMORNEFT BRANCH	

Financing of Research and Technology in LUKOIL Group, RUB mln.

2010	2011	2012	2013	2014
5,115	5,574.8	6,360.5	5,949	5,940

Source: Company data.



INNOVATIVE OIL RECOVERY TECHNOLOGY



Innovative developments by LUKOIL's personnel are intended to ensure development of the previously unclaimed hydrocarbon reserves in Russia's major oil and gas bearing regions. "Unclaimed" are defined as reserves that are hard to study or develop for technical or process reasons, and are subject to geographic or environmental constraints, or are not commercially viable in the existing market conditions or level of scientific or technical development of the oil and gas complex.

Multiple enterprises of LUKOIL Group have successfully introduced technologies that not only facilitate accomplishment of complex objectives, but also produce a noticeable commercial effect and mitigate the adverse environmental impact. For instance, they include:

- organization charts for application of production enhancement and well stimulation technologies;
- methodological and process solutions ensuring development of oil reserves that are confined to reservoirs with complex geologies;
- charts of application of technologies that ensure environmentally safe conditions for the development of fields located in the protected environmental zones, etc.

Exemplary applications of new technologies and results of such applications

Multi-zone hydrofracturing that had been pilot-tested in West Siberia and replicated at the enterprises of Perm Krai, Timan-Pechora oil and gas bearing province and Volga Region, was commercialized. The production that uses the said technique has totaled 8.6 mln. tn of oil, with the oil recovery factor going up by 5–12%.

Multilateral and multi-branch well drilling is gaining popularity for it makes it possible to drill fewer wells and thus cause less damage to the environment. Meanwhile the number of boreholes is growing, which makes it possible to take a better account of the specifics of a given field. E.g., in West Siberia, a well was drilled with five bottomholes. This technology is used in the development of hard-to-recover oil reserves. Application of the foregoing design solutions and recommendations issued by LLC LUKOIL-Engineering cut the average MBW construction time from 73 to 40 days. A total of 1.8 mln. tons of oil was produced from the commencement of application of the said technology.

Introduction of the dual well operation technique for multi-strata facilities results in lower CAPEX and shorter terms required to put into operation the facilities that have not been subject to development at "older" fields. The cumulative production totaled 1.5 mln. tons.

The formation pressure maintenance system existing in the Timan-Pechora oil and gas bearing province was streamlined using hydrochemical monitoring. The result was that in 2014 the Company cut down on its oil losses by 296 ths. tons vs. 2013.

LUKOIL is the only Russian company to use domestically developed nanoelectrical cased-hole logging (NEL) to assess the current hydrocarbon saturation while shifting to a different reservoir, for commercial purposes.

The verifiability of the NEL data reaches 60% vs. 25% coming from foreign techniques.

NEW DRILLING TECHNOLOGIES

The Company is now using new drilling muds designed by KogalymNIPIneft and PermNIPIneft branches to increase the penetration rate. No replacement of the drilling mud takes place prior to penetration of productive strata, which contributes to better wellbore stability, porosity and permeability of strata.

Optimization of bottomhole assemblies helps considerably reduce the periods of construction of extended reach wells, which is achieved through higher rates of penetration and reduced numbers of tripping operations. The cost advantage reaches 24 mln. RUB per well.

Application of EOR and latest technologies

	2010	2011	2012	2013	2014
Drilling of horizontal wells	101	235	268	284	320
Average flow rate, tonnes per day	156.6	49.8	58.8	48.8	48.3
Including horizontal wells with multizone hydrofracturing	–	96	99	96	108
Average flow rate, tonnes per day	–	56.3	43.5	41.7	35.4
Drilling of sidetracks	224	241	376	470	433
Average increase in flow rate, tonnes per day	19.7	20.4	16.7	12.3	12.6
Hydrofracturing, wells	690	681	867	978	980
Average increase in flow rate, tonnes per day	10.8	10.1	9.2	7.3	6.6

Source: Company data.

Application of new well casing technologies helps improve the quality of cementing, reduces the water cut and energy consumption. E.g., the Company has been using self-restoring backfill materials and light-weight expanding cement grouts. Both technologies developed by KogalymNIPIneft offer substantial cost benefits.

Cutting-edge technologies (e.g., the backfill compound designed by PermNIPIneft) are also used to combat lost circulation, which in its turn improves the quality of wellbore passage and cuts well construction times.



New in-house technologies are also used in the Downstream. For instance, Research and Design Institute LUKOIL-Nizhegorodniinefteproekt has developed a one-of-a-kind technology for processing waste generated by hydrofluoric alkylation units, being a part of the refineries.

Production of high-octane components of gasolines results in generation by the hydrofluoric alkylation units of waste that currently has to be removed for disposal. The technology developed by LUKOIL's specialists makes it possible to extract calcium fluoride from such waste, possible applications of which include metallurgy. It can become a full-scale replacement for fluorspar, a natural analog of calcium fluoride that is currently imported to Russia and is in high demand on the market.



HIGH QUALITY PRODUCTS AND SERVICES

QUALITY OF MOTOR FUELS	26
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DEVELOPMENT OF THE FILLING STATION NETWORK	28



From 2010 LUKOIL has been viewing oil refining development as its priority. In the next years the Company plans to complete upgrading of its refineries making sure that they reach the levels of the global companies and substantially increase the oil conversion rate. The refineries upgrade will help increase the output of more environmentally friendly fuels, including premium ones, and slash production of dark petroleum products.

The strategic challenge faced by the Petroleum Product Sales segment is target expansion of the Company's gas stations in the Russian regions, providing better and higher quality services to the customers. To reduce the adverse environmental impact of its distribution system the Company continues to upgrade its petroleum depots, reconstruct newly acquired filling stations and build new ones. Some of the filling

stations are put into automatic operation, which saves customers' time and makes the entire process more cost effective for the Company. Other measures taken include implementation of the customer-oriented filling station concept and customer incentives programs.

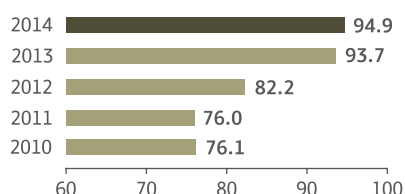
IN 2013–2014 LUKOIL'S PERFORMANCE INDICATORS WERE AS FOLLOWS:

- the share of the Euro-5 fuel neared 100%;
- the filling stations network expanded in the regions of presence.

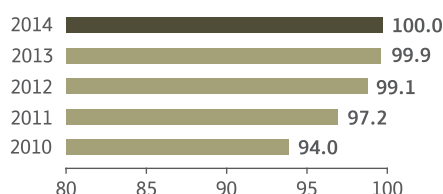
QUALITY OF MOTOR FUELS

LUKOIL has defined the requirements of technical regulations and its own plans as to the deadlines for the launch of Euro-5 motor fuel production. This was achieved four years ahead of schedule. Over five years (starting 2010) the output of environmentally friendly diesel fuels increased by almost 100%.

Share of clean diesel with 50 ppm and less sulfur content in total output of diesel fuel*, %



Share high-octane gasoline in total output of motor gasoline*, %



*Excluding mini-refineries and Zeeland refinery.

Source: Company data.

CUTTING DOWN ON PRODUCTION OF DARK PETROLEUM PRODUCTS

The major challenge currently faced by the Russian oil industry is to significantly reduce fuel oil production.

LUKOIL seeks to substantially cut down on fuel oil production by 2018, following completion of its new coking units, oil residue treatment facilities, hydrocrackers and a whole lot of other projects. Whether such programs will be successful will depend on consistent market regulation rules and a favorable taxation environment.

The Company came up with a proposal to formalize a system of export duties on oil and petroleum products and the schedule of its further amendments, at the federal legislation level. LUKOIL also thinks it advisable to differentiate between the export duties on fuel oil and other dark petroleum products given their consumer properties, and adopt a regulation establishing a term during which a 90% duty for gasolines will apply.

LUKOIL backs the initiative of the Federal Antimonopoly Service (FAS) regarding transition to floating excise rates for motor fuels in accordance with the global oil and petroleum product prices. The Company would also come up with a proposal to revise the fuel supply price preferences to agricultural producers by replacing them with targeted budgetary subsidies to the rural sector.

DIESEL FUEL AND GASOLINES

LLC LUKOIL-Permnefteorgsintez has a number of projects underway for the production of winter and arctic diesel fuels with sulfur concentrations under 10 ppm that do not use any depressor additives.

JET FUEL

LLC LUKOIL-AERO supplies fuel to aircrafts in more than 30 airports in Russia and abroad. Its clients include almost all major Russian and foreign airlines. LLC LUKOIL-AERO seeks to the fullest extent possible to meet the airlines' requirements for high quality fuel, as this factor directly affects the safety of air transportation.

MARINE FUEL

LUKOIL has developed a new marine fuel grade for environmental protection zones where harmful emissions from sea vessels are strictly limited. This fuel will make it possible to meet the new sulfur concentration restrictions that came into effect in January 2015 providing for the highest permissible mass fraction of 0.1%.

Environmental marine fuel (EMF) is heavy distillates that combine the best desirable properties of fuel oils and distillate fuels. Hybrid properties of EMF account for its intermediate position between fuel oils and distillate fuels. As of now there's no quality standard that we could use for the fuel's description.

The features that distinguish EMF from fuel oils include lack of abrasive particles (such as silicon or aluminum), vanadium or sodium or mechanical impurities. When mixed with other marine fuel grades, EMF does not demonstrate any setting of sediment or gravity segregation. It has a quite high washing capacity which ensures the absence or removal of any previous sediment in fuel tanks, fuel system, soot deposits in the cylinder-piston group and exhaust gas line. The fuel was first tested back in 2012, its testing is still underway.

In 2014, LLC LUKOIL-Nizhegorodnefteorgsintez launched production of its new marketable product: low-viscosity marine fuel that can be used to power both sea and river vessels with high and medium-speed diesel engines or gas turbine units.



LUKOIL is Russia's largest lubricant producer. LUKOIL Group's Russia-based refineries produce more than 45% of the total national output of lubes. The annual lubes output exceeds one million tons, and the sales geography covers more than 100 countries.

LLC LLK-International supplies the following lube types:

- first-third type lube base stock and industrial oil lubricants that are used as feedstock in the production of finished oils, lubes, additives, etc. Such lubes are in high demand outside of Russia;
- commercial oils – used in different industries (hydraulic, gearbox, turbine, compressor, transformer oils, etc.);
- transportation oils – for load-carrying vehicles, buses, agricultural or specialized machinery, railway transport, vessels or aircraft – engine and gear oils;
- passenger car oils – engine and gear oils;
- specialized oils – softening or plasticizing oils for the rubber industry and lube basestock for making of lubricants or coolants.

Production and blending of lubricants at LUKOIL refineries, th. tonnes

	2010	2011	2012	2013	2014
Total production (full cycle)	1,193	1,151	1,129	1,053	973
Mixing of lubricants	87	87	105	101	121
Packaged lubricants output	251	254	238	242	251
Branded lubricants output	289	317	358	342	376

Source: Company data.



DEVELOPMENT OF THE FILLING STATION NETWORK



LUKOIL's subsidiaries sell petroleum and gas products to retail customers through both their own filling stations, and those operating under franchise agreements.

The Company's prospective plans until 2021 provide for an increase in the average daily sales at the Russian filling stations both through expansion of the sales network (including construction of new stations in the regions), and by boosting efficiency of the existing marketing system.

The Company was the first one in Russia to have launched in 2010 a program aimed at transferring control of some of its filling stations to dealers, which may be either entities or individuals that/who have business experience and have exhaustive knowledge of the region (CODO program). Transfer of the filling stations takes the form of a competitive bidding. The contracts stipulate that the dealers are compensated for fuel sales, while the Company also bears bank fees and a number of other costs.

Thus by reinforcing its sales LUKOIL promotes development of small and family businesses in the Russian regions.

FUEL QUALITY CONTROL: FROM REFINERY TO END CONSUMER

Fuel quality is assured through continuous control of the entire petroleum product supply chain, in other words from oil depots to filling stations.

The oil depot personnel analyze petroleum products that come in rail tank cars or via a system of pipelines, and also after the unloading into the oil depot's tanks, which is supported by the respective quality certificates (their copies are available to end consumers).

Filling stations control the quality of fuel that is brought in tank cars and subjects the fuel in the filling stations' tanks to monthly scheduled checks and unscheduled inspections. All petroleum products must be subject to mandatory certification.

Verification inspections are conducted for fuel sampled from random filling stations located in various parts of the city or on highways. To conduct such tests one uses mobile labs that have the equipment to conduct such expert analysis for any pollution parameter. Sampling must cover every type of fuel.

LUKOIL Group's share at the engine fuel market, per federal okrugs, %

	SHARE AT THE WHOLESALE MARKET				SHARE AT THE RETAIL MARKET			
	2011	2012	2013	2014	2011	2012	2013	2014
Central	3	5	4	3	14	14	15	15
North-Western	16	12	11	10	23	21	25	25
Urals	23	23	19	18	17	17	17	20
Southern	17	19	13	10	26	26	27	31
Volga	16	18	14	14	25	26	28	27

Source: Company data.

IMPROVED QUALITY AND MORE SERVICES FOR MOTORISTS

Automatic Filling Stations

The present-day trend in terms of filling station management by oil companies is to convert them into automatic (unmanned) ones. Automatic filling stations (AFS) are designed for automatic fuelling of motor vehicles (without personnel present on a continuous basis) and the station's system is fully automatic. AFS are controlled remotely (by an operator).

AFS are a convenient solution not only for the Company (for they reduce the costs and improve performance of marketing units), but also for cities and motorists.

Major cities have fewer locations where conventional filling stations can be constructed. An AFS requires about 200–300 sq.m of space (conventional filling stations require an order of magnitude more). Consumers find AFS convenient because of reduced filling times, full control of the process, and operation on a 24/7 basis. Another crucial factor is lower cost of fuel (due to no operating or personnel expenses).

Customer Service control (Mystery Client Program)

It's been over four years since LUKOIL started its Mystery Client program in the sales segment seeking to improve the quality of customer services provided at the Company's filling stations. A third party company is engaged to assess how well the filling station's personnel performs against a number of criteria.

LLC LUKOIL-Severo-Zapadnefteprodukt and LLC LUKOIL-Permnefteprodukt were among the first companies to introduce this new tool.

The outcomes speak of a positive impact that the program has on the quality of services:

- the quality of customer services at LLC LUKOIL-Severo-Zapadnefteprodukt grew by more than 30%;
- from October 2013 (i.e. when the program was launched) LLC LUKOIL-Volganefteprodukt has been checking 80% of its filling stations on a monthly basis, so over a year and a half the Quality of Customer Services went up from 59 to 84%.

Customer Feedback

The Company has been consistently and in a timely fashion responding to all and any customers' complaints or requests to build trust with its customers and receive their feedback. To this end it has opened a hotline and established other ways of directly contacting the authorized personnel of its filling stations.

The marketing units have been consistently analyzing customer satisfaction levels. For instance, in April 2014 a poll was conducted, covering both actual and potential customers of the filling stations of LLC LUKOIL-Volganefteprodukt, with a total number of those surveyed being 5,242 people.

LICARD Electronic Cards

For the convenience of its customers LUKOIL has introduced LUKOIL fuel cards accepted by an overwhelming majority of the Company's stations. As it turns out, the cards are in high demand among motorists, which proves that the service is exceptionally customer-oriented. Gasoline cards offer a range of advantages to their holders, including:

- save money and control fuel costs. The customer can check the details of any transactions through his/her personal account, plan out costs and get discounts;
- make secure cashless fuel purchase transactions.

Starting 2011 one can not only buy fuel with LUKOIL cards, but also pay for a car wash or tire fitting services in Moscow. A partner network of car wash and tire fitting shops offers a wide range of high-quality inexpensive services, including several wash programs for different types of vehicles and mobile tire fitting services. The Company's customer incentives program now offers the same conditions for all Russian regions.



ENVIRONMENTAL AND SAFETY MANAGEMENT

ENVIRONMENTAL WELLBEING	32
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INDUSTRIAL ENVIRONMENTAL CONTROL	38

LUKOIL's health, safety and environmental (HSE) management system is based on the requirements of the Russian law and is consistent with the best Russian and international practices.

It links the administration (OAO LUKOIL) with each individual production facility of every LUKOIL Group Organization. The system was certified in line with the requirements of ISO 14001 and OHSAS 18001.



HSE MANAGEMENT

Involvement of the Company's top management: every year OAO LUKOIL's Management Committee reviews and approves an HSE report that represents an established form of review of performance in a given field by the Company's management. Such review is followed by the decisions regarding the areas of further development, remedial actions and preventive measures. Data contained in the report are also taken into account while drafting LUKOIL Group's Development Strategy and investment programs.

Basic corporate documents: The Company has a Health, Safety and Environment Policy in the 21st century in place, as well as corporate standards being a part of the HSE including identification of risks and respective response measures.

Policy implementation mechanism: five-year environmental and occupational safety programs, better working conditions and safer working environments, prevention of emergencies and emergency response.

Audit: every year the Company conducts in-house audits of the management system in LUKOIL Group Organizations; and on a regular basis engages third party audit firms to conduct external supervisory audits.

Assessments of the management system effectiveness is conducted on the basis of the monitoring outcomes that covers audits, production control, corporate supervision, and performance as part of HSE contests. HSE key performance indicators are in place for every management level.



In 2012, LUKOIL joined the Green Office project launched by Greenpeace Russia. The Company voluntarily assumed improvement obligations for the office environment. Membership in the project is the Company's way of contributing to the reduction of energy consumption and greenhouse emissions.

ENVIRONMENTAL WELLBEING

Development of LUKOIL Group's 2012–2021 Strategy involved elaboration of a functional environmental protection development program that considers the risks and potential changes in the environmental law. The following strategic environmental safety benchmarks of LUKOIL Group were determined:

- bring the level of associated petroleum gas utilization to 95%;
- reduce water discharge into water bodies;
- efficient management of greenhouse gas emissions;
- complete elimination of historic environmental damages;
- create a situation, in which the generated to recycled waste ratio does not exceed 1;
- reduce pipeline failures and restore lands contaminated as a result of such failures.

In its operations LUKOIL abides by the highest safety, health and environment standards. The Company conducts its activities in reliance on the environmental safety programs that are elaborated in consideration of the most crucial aspects.

KEY ENVIRONMENTAL RISKS

The key environmental risks pertain to the volatility of the Russian statutory requirements in this field.

In certain regions of the Company's presence the risk of failure by the Company's enterprises to comply with the new environmental regulations may call for additional costs to install instrumentation equipment, the Russian market of which is quite limited. Realization of process-related risks connected with operational equipment breakdowns may potentially result in contamination of the environmental media.

The risk management system, comprising the management of health, occupational and environmental risks of LUKOIL Group, helps render the occurrence of such risk events less likely.

The areas, where major investments are made to facilitate accomplishment of the foregoing goals, include:

- upgrading of enterprises, including replacement of technologies with low-waste ones and installation of units enabling the recycle of both accumulated and newly generated waste;
- construction of gas pipelines, gas compressor stations and new processing facilities;
- upgrading of refinery assets to increase the output of clean fuels.

KEY ENVIRONMENTAL MEASURES

The Company is currently implementing its fifth target functional 2014–2018 LUKOIL Group Environmental Safety Program worth RUB 128 bln. seeking to prevent, mitigate and eliminate any adverse environmental impact.



LUKOIL GROUP'S 2014–2018 ENVIRONMENTAL SAFETY PROGRAM

In September – October 2013 the Draft 2014–2018 Program was brought up for discussion by the governmental authorities, general public and mass media in four federal okrugs that accommodate most of the Company's operations in Russia (Volga, Northwestern, Ural and Southern Federal Okrugs). The discussion ended at the Russian Geographical Society in Moscow, at a round table attended by representatives of the Federal Assembly, Russian State Duma, Russian Ministry of Nature, Russian Ministry of Energy, Federal Service for Supervision of Natural Resources, Greenpeace Russia, UN Development Program in Russia, Bureau Veritas Certification, Russian fuel and energy sector businesses, consulting and public environmental entities. Comments and proposals voiced by the parties to the discussion have been taken into account in the current revision of the 2014–2018 Program.



COMPLETION OF THE 2014–2018 PROGRAM IS EXPECTED TO YIELD THE FOLLOWING RESULTS:

- achieve 95% utilization of associated petroleum gas;
- reduction (prevention) of emissions of pollutants by 130 ths. tn;
- additional treatment of 6.8 mln. cu.m of contaminated waste water;
- reduction of water consumption by 7.6 mln. cu.m;
- disposal of oil-contaminated waste – 300 ths. tn;
- disposal of waste accumulated prior to privatization, – 550 ths. tn;
- reclamation of disturbed and oil-contaminated lands – 5.1 ths. ha;
- elimination of sludge pits – 1,008 pits;
- major overhaul and replacement of pipelines – 4 ths. km;
- identification of pipeline defects – 31.6 ths. km;
- inhibitor protection of pipelines – 18.8 ths. km.

AREA	KEY ACTIVITIES IN 2013–2014
Efficient management of water resources, prevention of water sources contamination	<ul style="list-style-type: none"> • identification of defects and major overhaul of pipelines and their inhibitor protection; • construction of systems for initial discharge and disposal of formation water; • revision of pipeline passages through water sources; • treatment of contaminated groundwater from drainage systems; • upgrading of the existing and construction of new water treatment facilities
Emissions reduction	<ul style="list-style-type: none"> • upgrading and construction of facilities that increase APG utilization levels; • upgrading and construction of new generation facilities being part of the existing power generating sites with improved environmental characteristics and efficiency; • replacement and upgrading of equipment at the Company's sites (rope packing, process furnaces, pumping equipment) in order to reduce emissions; • optimization: timely adjustment of combustion patterns in furnaces, boilers, etc.
Recycling of accumulated oil waste	<ul style="list-style-type: none"> • widening the scope of waste neutralization; • bringing the Perm oil waste recycling facility to its design capacity; • construction of industrial waste disposal sites
Prevention of contamination and efficient management of land resources	<ul style="list-style-type: none"> • reclamation of disturbed and oil-contaminated lands; • identification of defects and major overhaul of pipelines and their inhibitor protection
Biodiversity preservation	<ul style="list-style-type: none"> • funding of compensatory activities to ensure reproduction of fish; • target monitoring of the environmental media.

Environmental Protection Costs, bln. RUB

COST TYPES	2010	2011	2012	2013	2014
Environmental safety costs	20.1	22.2	23.4	42.1	59.2
including capital investments into basic environmental protection assets	7.9	3.3	4.7	18.3	48.6

Source: Company data.

From 2013 and on expenses incurred in connection with the efficient utilization of APG are recognized as environmental protection costs.

KEY OUTCOMES OF THE 2009–2013 ENVIRONMENTAL SAFETY PROGRAM

During the reporting period all of the Company's business sectors except for Petrochemicals and Power Generation had their specific environmental impact either go down or remain unchanged.

The growth of some specific indicators in Petrochemicals in 2012 is due to a reduced scope of operations of LLC Stavrolen which ensued from the repairs and maintenance done in response to the 2011 and 2014 accidents.

CLEAN AIR

Reduction of emissions of pollutants was mainly due to the measures taken as part of the target corporate program aimed to increase APG

utilization. The sheer fact that gross nitrogen oxide emissions grew vs. 2010 is accounted for by the inclusion of the Power Generation indicators into consolidated data (increased combustion products output).

An upswing in sulfur dioxide emissions that commenced in 2011 is primarily due to the development of the Denisovskiy License Block (the Komi Republic) with an abnormally high concentration of hydrogen sulfide (30% or more) in the production fluid. 2015 saw commissioning of a gas treatment plant at the Bayadynskoye field that comprises a sulfur-containing components unit and is capable of producing and granulating sulfur, which will facilitate a further emissions reduction.







The growth of methane emissions is due to the official revision and re-issuance of the maximum permissible C1–C5 emission standards and methane release rules.

Emissions of NO_x, SO_x and Other Major Pollutants, ths. tn

INDICATORS	2010	2011	2012	2013	2014
Emissions of pollutants, total (excluding CO ₂)	812.3	842.3	725.8	735.5	656.4
including:					
NO _x emissions	47.6	30.4	39.0	37.1	34.2
SO ₂ emissions	49.5	103.4	83.8	100.3	100.1
solids emissions	46.7	42.5	32.5	39.5	30.1
CO emissions	431.8	420.7	331.2	331.6	293.8
hydrocarbon emissions, including methane emissions	236.5	238.3	229.5	220.1	190.7
	44.6	52	60.4	95.0	95.6

Source: Company data.

Specific emissions broken down into business sectors

BUSINESS SEGMENT	2010	2011	2012	2013	2014
 kg per ton of produced hydrocarbon feedstock	6.6	7.5	6.3	6.2	5.6
 kg/tn of refined oil	1.1	1.0	1.0	1.0	0.9
 kg/tn of processed raw stock	3.7	2.8	4.1	2.8	3.8
 kg/tn of sold petroleum products	0.69	0.63	0.63	0.64	0.64
 kg/tn of transported oil and petroleum products	0.32	0.2	0.2	0.2	0.2
 kg/tn of consumed fuel	3.14	3.31	3.06	2.8	3.6

Source: Company data.

CLEAN WATER

Over the reporting period, the actual water discharge was within the planned limits to reduce the impact on water bodies. A slight growth of this indicator had to do with the fact that process water from the blowdown of the water-cooling towers of one of LLC LUKOIL-Astrakhanenergo facilities was discharged to an ash dump, which is to undergo upgrading and where water treatment facilities will be installed.

Reduced water consumption and respectively reduced wastewater disposal in 2014 were achieved through the introduction of high-

tech and resource-saving equipment at the Company's power generating facilities. The injection of water into the formation pressure maintenance system (including that of formation water) went up by 2.5% and totaled 548.5 mln. cu.m.







Discharge of contaminated (insufficiently purified) wastewater by LUKOIL Group in 2014 remained at 0.6% of the total volume of wastewater. The Power Generation currently accounts for 70% of water discharge, which is due to the fact that back in 2013 the Company decided that a major part of the water supply and wastewater disposal systems of LUKOIL Group Organizations should be transferred to LLC LUKOIL-Energoseti for operational control.

Changes in the Water Discharge, mln. cu. m.

INDICATORS	2010	2011	2012	2013	2014
Water discharge into surface water bodies and onto terrain	354.9/321.1 ¹	329.3	334.6	311.1	265.5
including:					
clean according to standards	326.1/319.2	296.7	302.2	281.9	243.0
treated according to standards	23.8/0.9	31.0	31.2	26.8	20.7
under-treated	4.0/0	0.9	0.9	0.8	0.6
contaminated (untreated)	0.88/0.8	0.8	1.4	1.5	1.1

Source: Company data.

Specific Water Discharge

BUSINESS SEGMENT	2010	2011	2012	2013	2014
 cu. m per ton of produced hydrocarbon feedstock	0.01	0.006	0.006	0.006	0.005
 cu. m. per ton of refined oil	0.06	–	–	–	–
 cu. m. per ton of processed feedstock	–	–	–	–	–
 cu. m. per ton of sold petroleum products	0.005	0.002	0.001	0.001	–
 cu. m per ton of transported oil or petroleum products	0.007	0.01	0.01	–	–
 cu. m. per ton of consumed fuel	0.12	0.14	0.20	0.22	0.17

Source: Company data.







¹ Hereinafter the Power Generation data are shown after the slash.

Water consumption, mln. cu. m.

INDICATORS	2010	2011	2012	2013	2014
Own needs of LUKOIL Group enterprises	512.3/ 372.6	474.7	467.5	432.9	402.7
Including: business needs (excluding consumption to maintain formation pressure)	402.4/ 357.1	369.3	370.0	344.9	303.9
formation pressure maintenance	100.6	82.2	70.7	67.5	76.5

Source: Company data.

Specific Water Consumption for the Enterprises' Own Needs

BUSINESS SEGMENT	2010	2011	2012	2013	2014
 cu. m per ton of produced hydrocarbon feedstock	1.0	0.95	0.95	0.88	0.98
 cu. m. per ton of refined oil	0.41	0.41	0.4	0.4	0.4
 cu. m. per ton of processed feedstock	14.5	14.0	25.3	6.0	21.2
 cu. m. per ton of sold petroleum products	0.04	0.036	0.034	0.05	0.04
 cu. m per ton of transported oil or petroleum products	0.03	0.036	0.032	0.04	0.04
 cu. m. per ton of consumed fuel	62.03	60.3	50.5	47.3	47.8

Source: Company data.

Reverse Water Supply and Reused Water, mln. cu. m.

INDICATORS	2010	2011	2012	2013	2014
Reverse water supply	1,962.0/ 1,262	1,788.7	1,752.9	1,733.5	1,686.3
Recycled and reused water	1,008.9/ 435.8	844.6	826.5	848.8	845.5

Source: Company data.

WASTE DISPOSAL AND REMEDIATION OF LAND

LUKOIL has been making regular investments into waste recycling, thus implementing the responsibility principle throughout the entire product life cycle, and introducing the best available technologies. Thus ahead of schedule the Company is putting into practice the government's decisions regarding transition to a system of environmental regulation.

Increased generation of industrial waste is for the most part accounted for by a larger scope of well construction (drilling cuttings). The growth rate of waste recycling has been consistently exceeding that of waste

generation. Please note that such waste as drilling wastewater or used drilling mud that are discharged into sludge pits, following their purification, are recurrently used to make drilling muds or used as an injectant to maintain the formation pressure.

The Company has been applying the world's best well construction practices. Mitigation of the adverse impact is for the most part accounted for by all-round transition to drilling techniques that use environmentally safe drilling mud components, including muds that are based on polymer agents, which make it possible to the largest extent possible retain formation's permeability and porosity and have

no adverse impact on the environment. Given the transition to such safe components almost all of the drilling cuttings are classified now as the forth (low) environmental hazard class waste. On particularly susceptible natural territories or in locations where the integrity of sludge reservoirs may be disrupted, one uses sumless drilling (with purification and recurrent use of the liquid waste phase). In this case the cuttings are taken out to the locations where they are either neutralized or buried.

LLC LUKOIL-Volgogradneftepererabotka continues disposal of accumulated viscous waste. LLC LUKOIL-Permnefteorgsintez has commissioned its oil-contaminated waste recycling facility *(for more details please refer to Sustainable Development of the Russian Regions)*. »

Waste Disposal

INDICATORS	2010	2011	2012	2013	2014
Generation of hazardous waste, ths. tn	848.0/ 17.1	752.9	981.1	1,256.5	1,437.0
Hazardous waste disposed of (utilized or neutralized) by own efforts, ths. tn	298.2/ 0.7	258.0	273.1	488.6	462.1
Hazardous waste transferred for disposal (utilization or neutralization) to specialized entities, ths. tn	232.6/ 24.6	244.8	290.2	386.0	475.1
Waste as of year end, ths. tn	1,662.4/ 118	1,552.4	870.3	837.7	845.8

Source: Company data.

Remediation of Disturbed and Oil-Contaminated Land

INDICATORS	2010	2011	2012	2013	2014
Area of remediated land, ha	2,764	2,200	2,464	3,062	3,026
including oil-contaminated land, ha	59	86	159	108	151
Elimination of sludge pits by own efforts, pits	86	23	50	62	136

Source: Company data.

STAGES OF OIL-CONTAMINATED LAND REMEDIATION



Remediation of oil-contaminated land comprises multiple stages. The activities inside of each stage vary in accordance with the type and complexity of a land remediation site.

Technical remediation stage involves mitigation of risk of dissemination of contaminants and removal of surface oil.

The biological remediation stage is complete cleanup of soils and removal of all residual oil contaminants and creation of conditions for activation of the soil biota and restoration of vegetation.

Acceptance of disturbed and oil or petroleum products contaminated land takes place under the applicable regulations that set forth the requirements for residual concentrations of hydrocarbons and coverage (overgrowth) of the land with vegetation.

GREENHOUSE GAS EMISSIONS

In September 2013 the Russian President signed a decree On Reduction of Greenhouse Gas Emissions. In furtherance of the aforesaid decree, on April 2, 2014 the Russian Government issued Order No. 504-r approving of the Plan that provides for elaboration of the following:

- concept of development of the monitoring, reporting and verification system with regard to greenhouse gas emissions;
- guidelines and methods for inventory taking of greenhouse gas emissions across the key economic sectors;
- carbon intensity reduction targets for products manufactured by the major sectors of the Russian economy;
- systems of regulation of the most hazardous greenhouse gases.

The Company's representatives are involved in the elaboration of the legal and regulatory framework that is being prepared in furtherance of Order No.752 of the Russian President of September 30, 2013, and elaboration of the corporate system of monitoring, reporting and verification with regard to greenhouse gas emissions. For instance, in 2014 the Company developed its Guidelines for quantitative determination of greenhouse gas emissions by LUKOIL Group Organizations. The objective of such Guidelines is to harmonize the measurement and recording practices for greenhouse gases generated by process equipment, processes and production sites of LUKOIL Group Organizations, which will in its turn facilitate further development of the corporate greenhouse gas emissions control system. The Guidelines have been submitted for approval to the competent ministries and agencies.

Pursuant to the Guidelines following 2013 the Company did test calculations of greenhouse gases (CO₂, methane, NxO) released by individual production sites of its enterprises representing different business sectors.

According to its 2013 operating results the Company became one of the parties providing climate change data to the international CDP system (Carbon Disclosure Project). Following 2014 the list of data submitted to CDP and published on the Company's website was expanded.

The Company expects to considerably cut back on its emissions of greenhouse gases following implementation of its target program for higher levels of associated petroleum gas (APG) utilization.

INDUSTRIAL ENVIRONMENTAL CONTROL

LUKOIL has years of offshore field development experience using cutting-edge environmental safety technologies. The cost estimates of offshore field projects reserve 15% of the capital investments for environmental safety and recovery of environmental damages.

The industrial environmental control (monitoring) system that is in place at the Baltic and Caspian offshore sites is a great example of comprehensive innovative approach to environmental safety and efficient management of natural resources employed by LUKOIL Group.

ZERO WASTE PRINCIPLE



An Integrated Transportation and Operation Base for Reception and Further Processing of Wastes from the Yuri Korchagin Offshore Ice-resistant Fixed Platform

The Zero Waste is the key principle that OAO LUKOIL follows in its offshore operations. It implies a complete ban on any discharges into the sea and mandatory transportation of waste to the shore for disposal. The Company's history of operations in the Baltic Sea was taken into account by HELCOM (Helsinki Commission) during elaboration of the Action Plan for the protection of the environment against operations of offshore platforms in the Baltic Sea. The document officially established the need to follow the zero waste principle for every country operating in the region.

IEC SYSTEM

The industrial environmental control (IEC) system that is in place at the offshore facilities helps perform timely environmental impact assessment. The novelty of IEC system lies in the comprehensive observation of all natural and natural-anthropogenic media. IEC is conducted at all stages of business activities, including pre-construction. The scope of observations has been highly appreciated by dedicated research entities. Pilot operations are also conducted to complement the observations.

Prior to field construction activities, all and any available data are analyzed and processed. For instance, hydrodynamic survey data, near-bottom current and bottom sediment measurements as well as the findings of other surveys performed in the last 20 years by the Atlantic Division of P.P. Shirshov Institute of Oceanology of the Russian Academy of Sciences, Kaliningrad State University, S.N. Winogradsky Institute of Microbiology of the Russian Academy of Sciences or other research organizations were studied prior to construction of the Baltic Sea field.

The industrial environmental control system includes two key functional subsystems: the information measurement network (IMN) and information management subsystem (IMSS). IMN serves the purpose of obtaining, gathering, and primary processing of measurements of the parameters of controlled sources of impact and natural environment components. The network accommodates measurement equipment and control stations, both in-house ones and those of contracted third parties.

For its environmental monitoring in the Baltic the Company uses specially equipped vessels Professor Stockman, AtlantNIRO, Atlantida and Kembriy. The environmental data is also gathered by two bottom observatories, a hydrogeophysical station, two hydrometeorological stations, and three meteorological stations located immediately on the offshore platform, on the Curonian Spit, in Klaipeda, Baltiysk, and Pionersky. The Company erected the region's first standalone underwater seismic station.

For a complete version of the environmental monitoring report please go to http://www.lukoil.ru/static_6_Sid_2135_.html.

The two key external factors affecting the state of marine ecosystems and bio resources are the anthropogenic influence and climate change in whatever form they might take. The goal of IEC is to analyze the cause-and-effect relations existing between the observed changes and these two factors. To this end one conducts a range of contact measurements of the key geophysical, chemical, and biological parameters. The resultant data is used to select measurement check points for each type of monitoring.

IMSS is used to manage IMN operation, gather, process, store, distribute, and make available to users the information regarding sources and levels of environmental media contamination, and control compliance with the requirements of regulations governing environmental protection and efficient management of natural resources.

Years of observations of marine biological species reveal that OAO LUKOIL's field development operations have no impact on ecosystems.

BIODIVERSITY PRESERVATION

Permanently installed environmental monitoring systems comprising near-bottom stations are now being developed at the Yu. Korchagin in the Northern Caspian in conjunction with P.P. Shirshov Institute of Oceanology of the Russian Academy of Sciences. The goal is to elaborate a method for integral assessment of compliance of the man-caused impact on the marine environment and biota produced by the field infrastructure with the permissible standards.



As part of this work, the researchers determine the composition of species in the biomass, their sizes, weight and density of distribution of hydrobionts. They also classify hydrobionts in terms of their specific ecological and nutritional groups and complexes, evaluate accumulation of toxicants in the organisms, perform bio-testing, calculate biological parameters (for example, abundance and condition of phytoplankton, zooplankton, ichthyoplankton, fish biomass, etc.).

Satellite monitoring of the marine surface helps control oil spills in real time, identify pollution sources and forecast the drift of oil slicks.

The scope of the Company's biotic monitoring in the North Caspian drew attention of the UN Development Program in Russia, whose personnel proposed to include the operations in question into a project jointly conducted by the UN Development Program and Global Environment Fund entitled Biodiversity preservation in the Development Policies and Programs of the Russian Energy Sector. The project's geography has now expanded to the Timan-Pechora oil and gas bearing province (in 1994 it was the site of major oil spills that received global publicity) where there's an ongoing assessment of how processing of gathered oil-contaminated soil or remediation of oil-contaminated sites affects biodiversity.

ENVIRONMENTAL FEES AND FINES

The environmental impact fees surged (up to RUB 1 bln.) because regulations of the Russian government entered into force. They stipulated incentives for the reduction of atmospheric pollution with combustion products from APG flaring, whereby starting January 1, 2012 the fees for pollutant emissions generated by flaring of amounts exceeding 5% of the total APG production became subject to scale-up rates. In case of failure to achieve 95% of APG utilization, flaring emissions are considered excessive (scale-up rates apply).

The Company's projects seeking to boost utilization of APG made it possible in 2014 to cut back on the fees for excessive APG flaring (in excess of 5%) vs. calculated fees as much as was deemed possible. The actual fee including the funds set off as investments into APG projects was RUB 738 mln., with RUB 11.2 bln. spent on projects to reduce APG utilization being set off as such fees.

LUKOIL is planning to reach the target of 95% of APG utilization by late 2016. All of the Company's oil and gas production facilities currently have APG metering systems in place as required by the Russian Government's respective Decree.

HEALTH AND SAFETY PROGRAM

LUKOIL Group adopted its 2011–2015 Industrial Safety, Improved Working Environment, Safety, and Accident Prevention and Response Program (hereinafter referred to as the Program). Over the five years the overall Program's budget will come to RUB 40.1 bln., which is almost twice the budget of the preceding program (in 2006–2010 the expenses totaled RUB 26.3 bln). The program spending in 2013 was RUB 11.46 bln., whereas in 2014 it was RUB 10.05 bln.

The key industrial safety areas of the Program¹ include:

- improve industrial and fire safety management practices as well as the regulatory and organizational framework;
- ensure emergency prevention and response;
- bring the facilities of LUKOIL Group organizations in line with regulatory industrial, fire safety and health requirements;
- make sure that the challenges are resolved using cutting-edge scientific and technical solutions.

PREVENTION AND PREPAREDNESS FOR OIL AND PETROLEUM PRODUCTS SPILLS

The Company pays careful attention to the mitigation of emergency oil spill risks and readiness of LUKOIL Group Organizations to respond to potential oil spills.

It has been acquiring state-of-the-art equipment designed to contain and eliminate oil and petroleum products spills.

To be ready for prompt and effective response in the event of an emergency the Company's personnel receive related training. To eliminate oil and petroleum product spills the Company has set up and certified 40 rescue teams (a total of 1,822 employees). In 2013–2014 the site certification committee set up by the Russian Ministry of Energy certified 26 part-time rescue teams and 566 rescuers of LUKOIL Group Organizations.

There are prevention and elimination plans in place for every facility that could potentially become a source of emergency oil and petroleum product spills.

Given the fact that it is the Company's offshore facilities that are particularly hazardous, the safety of such facilities is provided by professional rescuers of the State Offshore Rescue Service of Russia Federal State-Funded Institution that has both the equipment and the experience required to eliminate offshore oil spills.

LUKOIL Group Organizations have been holding drills engaging governing bodies, and both professional and part-time rescue teams. In 2013–2014, the Company's facilities hosted 287 oil and petroleum product spill elimination drills.



The most crucial and large-scale ones included international comprehensive drills Spill 2013, Arctic 2014, Caspian 2013 and Caspian 2014. The drills revealed that both the governing bodies and part-time rescue teams of LUKOIL are well prepared and capable of interacting efficiently with professional rescue teams on various oil spill elimination scenarios.

LUKOIL has a record of over ten years of accident-free offshore operations (offshore terminals, oil and gas production platforms, subsea pipelines and similar infrastructure).

¹ For the contents of the Industrial Safety Program please refer to the section "Personnel Management".

ICE-RESISTANT PLATFORM IN THE BALTIC SEA

Not a single instance of pollution due to operation of the offshore platform in the Baltic Sea has been recorded over the years of its operation. Despite a high safety level of the facility, LLC LUKOIL-Kaliningradmorneft always seeks to improve reliability of their management systems.

Every year the Company takes part in international exercises in the Baltic Sea along with other teams from Poland, Lithuania and Kaliningrad Oblast.

In 2014, LLC LUKOIL-Kaliningradmorneft drilled some wildcats on the Baltic shelf. That was one of the reasons why in 2013 they held tactical and special exercises, and in 2014 they organized comprehensive exercises involving the governing bodies and emergency oil spill response teams.

PRODUCTION FACILITIES IN THE CASPIAN SEA

The Y. Korchagin infrastructure includes the fixed offshore ice-resistant platform (FOIRP), offshore transshipment facility (with a single-

buoy mooring), a 28 ths. tn deadweight storage tanker, and a 325 mm subsea pipeline. Oil is exported in shuttle tankers to the port of Makhachkala. Across the entire perimeter of its living quarters the platform is equipped with fire and gas detection sensors that activate the automatic emergency shutdown system.

LLC LUKOIL-Nizhnevolzhskneft's headquarters accommodate a center for remote monitoring of drilling operations and processes that monitors the progress of operations, and controls oil leaks in real time. Vessels with professional emergency rescue teams and emergency oil spill elimination equipment on board are on duty in the proximity of FOIRP on a 24/7 basis. They are also ready to assist in rescue and provide temporary accommodation for the platform's personnel.

LLC LUKOIL-Nizhnevolzhskneft's personnel on a regular basis take part in the exercises that are also attended by representatives of the Russian, Kazakh, Azerbaijani ministries of emergencies, Russian Ministry of Transport, Federal Service for Supervision of Natural Resources, border services and other agencies.



PERSONNEL MANAGEMENT

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OA O LUKOIL employs a multinational team of professionals. Employees are the Company's biggest value. Whatever LUKOIL does is done by the people and for the people. The quality of personnel, the ability to bring the talent to light and use it for the good of both the Company and the employee him/herself are an indisputable prerequisite of LUKOIL Group's success in many fields.

PERSONNEL MANAGEMENT PRINCIPLES

LUKOIL Group's personnel management system is based on the Personnel Management Policy, Social Code, and Functional Personnel Management Strategy¹.

The Personnel Management Policy is based on the sustainable corporate culture, corporate value system and provides for measures to:

- encourage personnel to accomplish goals outlined in the Company's strategy;
- determine criteria used in assessment of the extent to which each particular goal has been accomplished;
- remunerate and reward personnel.

The Personnel Management Policy is first of all aimed at creating a human resources system that will give the Company a stable status of a preferred employer on the labor market.

The Social Code defines the principles of corporate citizenship in the field of labor relations (including benefits available to employees) and a system of relations between the Company and the community.

Another important line of work for LUKOIL is its youth policy designed to attract young professionals and develop their professional potential. The Company's subsidiaries are involved with career guidance activities, organizing on-site tours and welcome days for students and schoolchildren. The Company has established cooperation with a number of higher educational establishments, and considers them its strategic partners. The Company has launched its Start into the Future project that it uses to attract the best students and young professionals. In 2014, participants of the Start into the Future project were 32 university students in their third or fourth years, 20 individuals

completed their internships, four graduates received employment with the Russian LUKOIL Group Organizations.

LUKOIL has been on a regular basis cooperating with the leading entities in employment relations and corporate citizenship.

Since 2008 LUKOIL has been sitting on the Russian trilateral committee for regulation of social and employment relations as the official spokesperson for RUE. The Committee is the supreme social partnership authority operating under the Russian Labor Code. The target efforts made by the Company as a member of the said Committee made it possible to review in 2014 over 150 draft regulations.

OA O LUKOIL is the only Russian company which signed a Cooperation Agreement with the International Labor Organization in late 2012. The scope of the Agreement covers partnership in youth employment, personnel sharing and personnel training. Under the Agreement LUKOIL has been assisting ILO in development and technical cooperation as part of the CIS Youth Employment Cooperation project. The goal behind the project is to launch a platform for inter-governmental and inter-regional cooperation in knowledge sharing and reciprocal training between the CIS states and provision of technical assistance in the given field in Russia, as well as implementation of technical cooperation initiatives in Russia and CIS states. The Parties have also been reviewing possibilities of personnel exchange and personnel training within LUKOIL Group. A joint Committee was set up to supervise performance of the Agreement that meets once a year.

Russian and Kazakh relevant ministries, social partners and other stakeholders have been developing a road map (Russia) and an action plan (Kazakhstan) to embrace youth employment. The said documents mark priorities, ways and mechanics of updating youth employment policies jointly elaborated by multilateral task teams. The next stage in cooperation would be to develop the Program of Cooperation in the foregoing lines of activities. The Company's operations in the Russian regions (Kalmyk Republic, Khanty-Mansi Autonomous Okrug – Yugra and Perm Krai) are also directly related to the effort that is being put into the Russian youth employment road map.

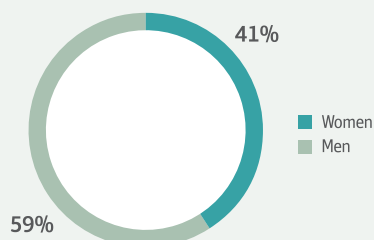
LUKOIL views its ILO cooperation as the cornerstone of international dialogue and a key social policy tool. It also improves the Company's relations with governmental authorities and reinforces the Company's positive image on the global arena.

¹ The Personnel Management Policy (http://www.lukoil.ru/static_6_5id_261_.html) and the Social Code (http://www.lukoil.ru/static_6_5id_262_.html) are in the public domain. The functional strategy is an internal management tool.

The average number of staff of LUKOIL Group, including its foreign companies, in 2013–2014 dropped by 1,681 employees which is due to staff rightsizing, spinning off of non-core business units and assignment of numerous functions to third party entities.

Young employees account for about 25% of the Company's total headcount. In 2014, about 12 thousand employees under 30 got their employment with the company, which is 49% of the total number of new employees.

Female to male ratio in Russian LUKOIL Group Organizations¹



¹ Data as of 31.12.2014.

Inflow of Young Employees to LUKOIL Group Enterprises

INDICATORS	2013	2014
Total number of young personnel (under 30)	27,581	27,745
Number of young professionals	2,125	2,171
Newly employed young personnel	12,637	11,763
including young professionals	940	805
Number of students assigned by LUKOIL Group Organizations to study under contracts made by the Company	548	375
Number of students who received on-the-job training at LUKOIL Group enterprises	2,900	3,000

Source: Company data.



The key lines of work in 2013–2014 included introduction of the state-of-the-art personnel assessment techniques, development of corporate training programs, development of the remote learning system and cooperation of higher educational institutions.

Every year around 70 thousand employees (60% of the entire headcount) undergo training under various advanced training programs, and of such employees over 300 individuals take part in programs that are complementary to their high education, obtaining master's and bachelor's degrees.

REMOTE LEARNING

In 2014, 54 LUKOIL Group Organizations joined the remote learning system (RLS) with over 90 thousand registered users. The RLS websites offer over 250 learning courses. In 2013–2014 RLS made it possible for the entire Company's management and personnel to undergo occupational and fire safety training. The year 2013 saw introduction of OLIMPOCS, a module that is based on the corporate information system RLS that enables pre-certification training and certification of personnel in industrial safety in accordance with the applicable procedures.

In the reporting period the filling stations' personnel received access to the RLS. Development of a new interactive simulator is currently in its final stages; it will help the filling stations' personnel to become well-versed in customer service standards. The simulator is expected to be put into pilot operation which is to be carried out by the Petroleum Products Supply entities.

TRAINING FOR MANAGERS

To build a talent pool for managerial positions in the Upstream, OAO LUKOIL jointly with LUKOIL Overseas Holding Ltd. and Skolkovo Moscow School of Management elaborated a training program to form a team of leaders who will manage major upstream oil and gas projects, both in Russia and abroad.

Training is provided by teachers of the leading foreign educational institutions, executives of OAO LUKOIL and LUKOIL Overseas Holding Ltd. and experts of the leading global oil and gas companies.

CORPORATE KNOWLEDGE MANAGEMENT SYSTEM

The Company has been using up-to-date website technologies to actively develop its Corporate Knowledge Management System to enable its personnel and the Group's entities share professional

expertise. The Corporate Knowledge Management System currently covers such lines of the Company's work as exploration, production, refining and petrochemicals, petroleum products supply, personnel management, organizational development, economy and planning. In the reporting period the system covered the Power Generation sector. For its achievements in the given field at the KM Russia anniversary event held in 2014 the Company received the prestigious global award MAKE Awards Russia.

TRAINING IN COOPERATION WITH PARTNERS

In conjunction with the Gubkin Russian State Oil and Gas University the Company has been providing training to the personnel of LUKOIL Group Organizations in energy efficiency and accident-free approach to construction of both onshore and offshore oil and gas wells as part of the 2012–2014 Presidential Program of Advanced Training of the Engineering Personnel as prescribed by Decree of the Russian President No. 594 of 07.05.12.

At a meeting jointly held by the Innovative Management Academic Department and the Task Team responsible for maintaining contacts with the university the parties approved the 2013–2015 Action Plan ensuring cooperation between OAO LUKOIL and Gubkin Russian State Oil and Gas University in research, engineering, technology and education.

The Company has also developed and approved its 2013–2015 Comprehensive Program of Partnership with Higher Educational Oil and Gas, Chemical or Energy Institutions. On January 12, 2013 the Company signed a cooperation agreement with the Astrakhan State Technical University to organize personnel training. In November 2014, as part of the Perm Engineering and Industrial Forum held in the premises of the Krai's Polytechnic School in the city of Chernushka a Center for Hands-on Education and Advanced Training called Polygon was opened to train oil and gas professionals.

The Company continues its cooperation with the Tuymen State Oil and Gas University, Perm National Research Polytechnic University, Ukhta State Technical University, Ufa State Oil and Gas University, Financial University at the Government of the Russian Federation and other institutions providing higher education. It has also been involved in active cooperation with vocational education institutions. Over the years of cooperation the Company succeeded in substantially improving the training facilities at field-specific universities. It publishes new learning aids and annually hands out grants for gifted students, teachers and foremen of vocational training.



INCENTIVES AND REMUNERATION SYSTEM

The system of personnel incentives that focuses on the achievement of corporate goals, is linked with the system of key performance indicators, and serves as an additional impetus for improvement of the personnel's overall performance. The key aspects in this field are increasing the value of LUKOIL Group's assets and continuous performance improvement.

The Company seeks to have the best possible combination of performance indicators, trying to balance out its short-term and long-term outcomes, assess performance of individual employees and the entire Company, as well as its financial and operating performance.

The Company's remuneration policy is based on the principles of unity, transparency, fairness and competitiveness of salaries, their regular adjustment for the consumer price index and regular pay raise accompanying the growth of labor productivity.

The Company has put into effect a program of long-term incentives to maximize profits, increase capitalization and investment appeal of the Company, attract and retain highly trained people.

Continuous monitoring of the labor markets enables the Company to promptly respond to changes in the remuneration structure in the regions of its presence thus making the Company competitive. We regularly analyze inflation levels and changes in the buying power that is attributable to the salaries, and make timely managerial decisions following such analysis.

In 2013, salaries were indexed by 7.4% and in 2014 – by 5.6%. The minimum monthly salary rate of a first grade worker in 2013–2014 was RUB 8,731 (which is the level of the minimum living wage for capable population as of 3Q2014).

USING THE YOUNG PROFESSIONALS' POTENTIAL

Young professionals get the opportunity to use their creative and research abilities via a system of corporate activities.

In 2013, the Ukhta State Technical University hosted the 10th Conference of Young Researchers and Professionals of LUKOIL Group Organizations, summing up LUKOIL's Eleventh Contest of the Best Scientific Developments by Young Researchers and Professionals. Given the fact that 2013 by the Presidential Decree proclaimed the year of environmental protection, the subject of the conference was Harmony with Nature is a Recipe for Success! Among the conference speakers were the finalists who were awarded the title of the Best Young Professional of the Year and participants of LUKOIL's Eleventh Contest of the Best Scientific Developments by Young Researchers and Professionals.

In 2014, 28 LUKOIL Group Organizations held contests and conferences of the best scientific developments by young researchers and professionals.

Young professionals also took part in the best technical development contests that are regularly held under the auspices of the Russian Ministry of Energy. In 2013, the total number of applications for the Fuel and Energy Complex 2013 contest was 123, and 33 young employees of LUKOIL were declared winners. In 2014, 11 young employees won the All-Russian contest called New Idea.



A special focus is for the new employees to adapt to the environment at the Company's enterprises. The Company holds training sessions entitled Young Professionals' Boot Camp that are an integral part of the training system. The goal is to reduce the period of adaptation of young employees and boost their professional performance.

The enterprises have Councils of Young Professionals (CYP) responsible for assisting young employees in adaptation to a new labor environment, perfecting their professional skills and fostering a responsible attitude to labor. The Council's regular meetings are attended by young professionals and young employees of the enterprises who discuss the existing challenges, share experience and develop joint projects. CYPs work in conjunction with long-service oil industry employees with regard to celebration of the Victory Day, the Elderly Day, themed nights Encounter of Generations, and are actively engaged in traditional rotations with the participating teams picking up where the previous ones left off.

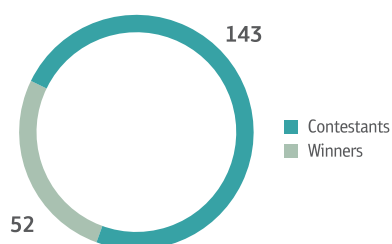
In 2014, CYPs held field meetings in Perm and Volgograd seeking to reinforce cooperation among their regional units, build and develop corporate competences, share experience and review the Company's top performing production sites.



Every year the Company holds its Young Professionals Day, which always includes a team building session. In 2013–2014 over 150 young professionals from Moscow Region participated in the event. Similar events are held in every other line of the Company's operations in accordance with the 2008–2017 Integrated Target Program of LUKOIL Group for youth outreach.

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

Outcomes of the 9th Young Professional of the Year Contest



SOCIAL POLICY AND PROGRAMS

The Company's social policy implies:

- observance of the fundamental labor principles and rights;
- compliance with the labor law of the Russian Federation or the countries of its presence;
- creation of favorable conditions for the social protection of employees and workforce stability;
- maintenance of the social corporate standard.

The Company pursues its social policy in accordance with the applicable law and as part of its commitments declared in LUKOIL's Social Code and anchored down in the following documents:

- 2009–2014 agreement between the employer and LUKOIL's Association of Trade Unions;
- Agreement between OAO LUKOIL and LUKOIL's Inter-regional Association of Foreign Trade Union Organizations;
- Agreement between LUKOIL, IndustriALL Global Union, Russian Oil, Gas, and Construction Workers' Union, and LUKOIL's IATUO;
- regulations of LUKOIL Group organizations.

In 2013–2014 expenses incurred in connection with social programs for the personnel of the Company's Russian organizations, their families and non-working retirees and maintenance of the social infrastructure totaled about RUB 10 bln. per annum

SOCIAL PROGRAMS

The Company is committed to solving its top-priority social issues and will continue to place emphasis on the social aspects that are inherent to sustainable development.

The key social programs are focused on:

- healthcare (including voluntary medical insurance of employees);
- assistance to employees in purchasing their own accommodation;
- social support to women and families with children;
- non-state pension schemes.

Healthcare

In 2013–2014 the Company continued with the following programs and activities:

- voluntary medical insurance of its employees;
- temporary disability and maternity benefits;
- health improvement and recreation for employees;
- first aid at the organizations' health posts;
- preventive measures.

OVER **90%** OF THE PERSONNEL

VMI PROGRAMS NOW COVER

Voluntary medical insurance (VMI) enables personnel to receive services in addition to those rendered under the mandatory medical insurance programs (MMI), undergo high-tech medical examinations, and receive higher quality medical assistance. A more flexible insurance coverage mechanism is available to the employees who get an opportunity to extend at their own cost their VMI coverage, thus meeting their personal needs.

Commitment to healthy lifestyles is also one of the corporate values. Promotion of the value of a healthy and health-minded lifestyle is the backbone of each corporate sports program and event that have already become a tradition at the Company's key enterprises, including spartakiads, regional and oblast-level competitions and tournaments, touristic camps and guided tours for employees, their families and veterans. Over 100 first-aid posts, pre-shift inspection rooms, and first-aid stations have been providing first aid to the Company's personnel. New first aid posts were opened at LLC LUKOIL-Rostovenergo and OJSC RITEK. In remote areas the personnel are examined during dedicated on-site visits of medical teams. Additionally one has been delivering lectures on the prevention of the most common diseases. Every year employees get vaccinated against flue, tick-borne encephalitis and other dangerous deceases.

Housing Program

In 2013–2014 the Company's provided housing support to its employees in accordance with the Fundamental Principles of LUKOIL Group's Housing Policy (human resources and social components). The costs associated with the human resources component of the housing policy are allocated in accordance with the operating personnel's requirement for housing (external and young professionals). The costs associated with the social component of the housing policy are allocated to assist the personnel in housing improvements by subsidizing the interest rates applicable to mortgage loans provided by the banks.

Pension Support

In pursuance of its corporate pension standard, in the reporting period the Company focused its efforts on accumulation of the pension capital for its personnel using every available opportunity that it had under the applicable law or local regulations, including:

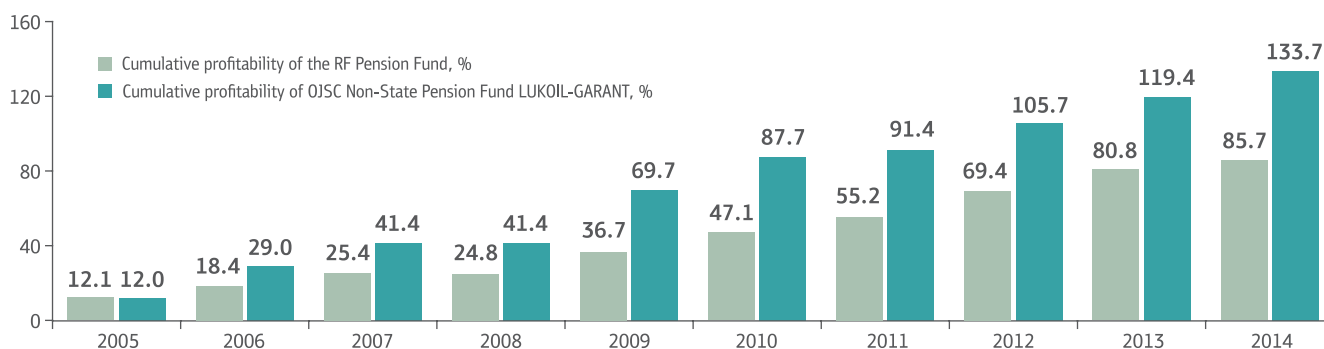
- efficient management of the funded part of the labor pension;
- participation in the governmental pension savings co-financing program;
- participation in the corporate system of non-state pension programs.

As of the end of 2014, 80,452 employees (about 95% of the headcount) had been contributing into the funded part of their labor pensions in the Non-State Pension Fund OJSC LUKOIL-GARANT (hereinafter, the Fund). Over ten years the accumulated profitability of the monetary assets constituting the funded part of the labor pension totaled 133.68% (vs. 85.67% of the state-owned management company), which completely outdoes the accumulated profitability of the Pension Fund of Russia over the same period. A total of 43,176 employees are members of the state program co-financing the accumulated funded part of the labor pension.

At 2014 year end, 47,941 individuals (over 56% of the headcount) became active members of the corporate Decree Pension Scheme, and 36,855 got membership in the Shared Pension Scheme, thus exceeding 43% of headcount. Non-state pensions in 2014 averaged RUB 2,100.

A well balanced investment strategy helped the Fund to fulfill its obligations towards its clients and never suspend payouts of non-state pensions. In 2014, the Fund paid out a total of RUB 1.6 bln. as pensions. The Fund offers its clients a high level of protection of their pension capitals. The Fund's equity capital used to secure the fund's obligations exceeds RUB 174 bln.

Accumulated Profitability Comparison: Non-State Pension Fund LUKOIL-GARANT vs. Pension Fund of Russia



Source: Company data.

The Company's museum network comprises the LUKOIL Museum founded in 2005, and over 25 museums of the Group organizations in various Russian regions, Bulgaria and Romania.

Being an essential link in the corporate culture and all-in-one communications centers, LUKOIL's museums preserve the best traditions of the oil and gas industry, thus ensuring continuity of different generations of oil workers. As required by the Corporate Culture Rules, regular events include official initiation ceremonies for new employees, farewell parties for outgoing retirees, prize-giving ceremonies, anniversary events, guided tours, themed nights or other events.



Museum events and exhibitions are an essential part of the activities conducted by the museum network. In 2013–2014 OAO LUKOIL's museum held over 30 temporary exhibitions, including 80 years of Teboil, 50 years of Bulgarian Gasoline, 20 years of LLC LUKOIL-INFORM, 20 years of the LUKOIL Charity Foundation, 20 years of OAO LUKOIL's IATUO, 10 years of the Neftyanije Vedomosti newspaper, Company's Youth Policy, LUKOIL's Diamond Project, West Kurna-2, 160th Anniversary of V.G. Shukov, 85th Anniversary of V.I. Graifer, Olympic Glory of Russia, and many others.

Exhibitions were held at the Company's headquarters, Russian Ministry of Energy, State Central Museum of Contemporary History of Russia, Central Armed Forces Museum, International Trade Center (in Moscow), Exhibition Center Perm Fair, I.M. Gubkin Russian State University of Oil and Gas, Ukhta State Technical University, Perm National Research Polytechnic University, Corporate University of Russian Sberbank, and outside of Russia in Belgium, Finland, Italy and Bulgaria.

Moreover, personnel of the corporate museum created their own sections in the projects launched by the State Central Museum of Contemporary History of Russia Stalingrad at War, Chapters in the History of the North Caucasus, Women and Time – 21 century, Innovative Development of Russia, as well as those launched by the Central Armed Forces Museum 70 years of Military Counterintelligence Service SMERSH, and 50th Anniversary of V.V. Tereshkova's Space Flight.

The museums of LLC LUKOIL-Nizhegorodnefteorgzintez, LLC LUKOIL-Permnefteorgzintez, LLC LUKOIL-PERM, LLC LUKOIL-Kaliningradmorneft, LUKOIL Neftochim Burgas AD, and other LUKOIL Group companies were also quite active in holding exhibitions.

According to numerous experts, the Company's museum fund with over 3,500 items is one of the country's most sizeable themed collections. It helps put on record various stages of the oil and gas industry's development and is exhibitiv of the history of formation and current state of one of the biggest industries in contemporary Russia. Exhibits from LUKOIL's museums were often used to illustrate teaching aids, historic chronicles, books or magazine articles. The personnel of LUKOIL's museums have been continuously helping creative teams to make documentaries, movies or TV shows.

LUKOIL's Council for Museums makes a significant contribution to elaboration of the common corporate museum policy. At its meetings often attended by representatives of state-owned museums it regularly addresses pressing issues such as improvement of museum management, acquisition of items for the corporate collection, foundation of new museums and temporary exhibitions.

Its circle of professional contacts has been continuously expanding. The Company's museum holds regular tutorials and workshops attended by members of the Association of Research and Technical Museums of the Russian Committee of the International Museum Council, personnel of corporate museums in the capital or other Russian cities.

A high level of equipment capability makes it possible to use the Company's museums as training centers for employees with various levels of competence, or school and university students. For several years in a row, students of the I.M. Gubkin Russian State University of Oil and Gas have been regularly having classes in the Company's Museum to study the history of the Russian oil and gas industry and corporate culture of oil and gas companies.



The Company's museum personnel perceive exhibitions as an environment capable of passing on knowledge, triggering intellectual development and broadening one's worldview, which will undoubtedly have a great impact on molding an oil industry worker's personality. The displays at many museums are being currently rearranged, supplemented, and re-equipped so as to enhance their awareness and make them more appealing.

One of the key goals for the next few years will be to launch a second corporate museum phase, making it accessible to the general public.



ENGAGEMENT WITH TRADE UNIONS

OA O LUKOIL's International Association of Trade Union Organizations (OA O LUKOIL's IATUO) consists of 28 integrated and 24 primary trade union organizations comprising 135,083 trade union members.

For over 20 years both IATUO and the Company's management have been pursuing socially oriented policies, creating the best and safest working environment and ensuring high living standards for its employees. The social partnership system that the Company has built up and the level of relations between the parties today make it possible to accomplish a variety of business and social goals.

AGREEMENT BETWEEN THE EMPLOYER AND IATUO

In September 2014 the employer and trade union association made a successive 2015–2017 agreement. The document has taken account of the amendments made to the current law, provisions of the Master Agreement between all-Russian trade union associations, all-Russian associations of employers and the Russian Government, industry-wide agreement of organizations operating in the oil and gas industry, construction of oil and gas infrastructure in the Russian Federation. At the same time the Agreement provides for a number of benefits and guarantees for personnel in addition to those outlined in the statutory regulations or the foregoing agreements. It is perceived as the legal yardstick for collective bargaining agreements made by LUKOIL Group's companies.

The 2015–2017 agreement outlines the obligations mutually assumed by the Company and its employees with regard to social or employment matters, working and leisure hours, remuneration, health and safety, social benefits and warranties, youth activities, defines the guaranteed rights vested in the trade union association and trade union organizations in accordance with the requirements established by the applicable law, industry-specific documents and the outcomes of the restructuring carried out by the Company.

Both parties have made joint efforts to fulfil their obligations set forth in the 2013–2014 Agreement between the employer and LUKOIL's Association of Trade Unions.

In 2013 and 2014, LUKOIL Group Organizations, their subsidiaries and partner companies that are members of the trade union association had 70 effective collective bargaining agreements, of which 16 had been made and entered into by foreign entities. The obligations formalized in such agreements were consistently fulfilled, which was later proven by collective bargaining campaigns.

Collective bargaining agreement contests annually held by the Russian Oil and Gas Industry Construction Trade Union demonstrate that LUKOIL Group's agreements are among the industry's best. As a result of the 2013 and 2014 contests four out of five winning collective bargaining agreements came from the Company's organizations, which is another proof of a high level of social benefits available to the Company's employees.

Major challenges faced by the trade union association are addressed at the meetings of the IATUO Council, bilateral committees for social and employment relations, meetings between trade unions and management, including representatives of the workforce. Both the trade union association and trade union committees monitor the social and economic conditions existing at the enterprises and in the regions of the Company's operations.

KEY AREAS OF COOPERATION

IATUO has been actively contributing to the efforts of creating safe production environments and meeting the applicable health and safety standards.

Technical inspections and over 3.5 thousand trade union officers authorized to verify occupational health matters are another major contributor to the prevention of occupational injuries. Trade union committees are take part in the implementation of measures of the 2011–2015 Industrial Safety, Improved Working Environment, Safety, and Accident Prevention and Response Program of LUKOIL Group Organizations.

Both legal and technical employment inspectorates of LUKOIL's IATUO, including without limitation public (part-time) legal inspectors of employment matters representing trade union organizations are responsible for supervision of compliance with the labor law, provision of a healthy and safe working environment, a healthy psychological climate, which is the prerequisite for the Company's successful development.

In 2014, one of the top-priority areas that the trade union committees and trade union association focused upon, was the engagement and preparations for holding a dedicated assessment of the working environment that helped address the most complicated issues associated with transition from the workplace certification system to the dedicated working environment assessment practices.

In February - March 2013 the trade union association conducted an opinion survey among trade union members to find out their take on the working environment, social issues and potential for improving the employee productivity. The survey revealed that the personnel's working environments are quite comfortable. The key indicator was assessment by the employees of their own workplaces, which forms the foundation of stability and confidence in the future.

The overwhelming majority of respondents (over 95%) believe LUKOIL is a company with a high level of corporate citizenship, which is not only indicative of the trust the personnel put in their management, but also of the fact that the trade union association is quite productive.



Somewhat aside from other corporate activities stand craftsmanship contests called The Best by Trade. The seventh regular contest was held in 2013. In preparations for the contest the contestants hone their professional skills and craftsmanship, improve their competences thus contributing to success and sustainability of the entire business.

Another crucial factor contributing to the development and maintenance of a healthy lifestyle culture is propagation and support of popular sports or other athletic activities done by the employees or their families.

INTERNATIONAL COOPERATION

The international trade union cooperation is based on the Global Agreement between IndustriALL Global Union, Russian Oil, Gas, and Construction Workers' Union, and LUKOIL's IATUO. IndustriALL Global Union is for the time being the largest global trade union federation bringing together over 50 million employees from 140 different countries.

In 2013 and 2014, the IATUO and the Company's delegations took part in the annual Forum of the Organization for Economic Co-operation and Development (OECD) and meetings of the Trade Union Advisory Committee to the OECD (TUAC OECD). Such cooperation has been gaining momentum since 2009 and still continues regardless of the international situation which is getting ever more complex.

Lasting cooperation with the leading organizations, trade union federations, expert centers (such as EURISPES, ETUI-REHS, Social Development Agency, SindNova) takes the form of a day-to-day sharing of experience and information exchange. In 2014, in conjunction with

the International Training Center of the International Labor Association (ITC ILA) IATUO and the Company held workshops on the following subjects: Corporate Citizenship and International Business Relations and Health and Safety Management Systems (HSMS): existing trends and positive international experience. The workshops were specifically prepared for the employees of LUKOIL and trade union organizations.

"Even during the most complicated periods of the Company's existence the dialogue maintained by its management and IATUO made sure that the LUKOIL businesses remained stable, offering a worthy level of income and benefits to its personnel... The trade union association has been putting a lot of effort into creating a favorable moral and psychological climate among the Company's employees, has a sizeable reputation on the global stage and has contributed to higher performance at every workplace".

*Vagit Alekperov
President of OAO LUKOIL*

HEALTH AND SAFETY

Protection of employees' lives and health is the primary goal of OAO LUKOIL. In accordance with the existing Health, Safety and Environment Management Practices the Company has been consistently working to improve its working environment.

The key areas of the Program with regard to health and safety include:

- improve health and safety management performance, provide regulatory and organizational support;
- provide training and advanced training to employees;
- bring the workplaces in LUKOIL Group organizations in compliance with the regulatory requirements;
- furnish the personnel with personal protective equipment and arrange appropriate sanitary conditions and take disease prevention measures;
- arrange healthcare for the employees in compliance with both national and corporate standards.

DEDICATED WORKING ENVIRONMENT ASSESSMENT

Starting 2014 the procedure for workplace certification based on the working conditions which was a tool for determining the working conditions and calculating on their basis the amount of compensation due in connection with the harmful working environment that was in effect from 1997 till 2013, was replaced with dedicated working environment assessment practices (hereinafter referred to as DWEAP). It is defined in Federal Laws No. 421-FZ and No.426-FZ of 28.12.2013, establishing the requirements for implementation of DWEAP and at the same time introducing the principle of differentiation of compensations due in connection with the harmful working environment into the Russian Labor Code (reduced working week, additional leave, higher wages) in accordance with the degree of harm caused to the human health at the workplace.

As of January 1, 2015 LUKOIL Group Organizations have 46,425 workplaces with 85,919 people, of which 35,903 are women. Most workplaces (90.5% of their total number) have either been covered with DWEAP conducted in 2014 (22.7% of their total number) or certification of workplaces as compliant with the working conditions conducted in 2010–2013 that has not yet expired (67.8%). In 2014, the Company improved the working environments for 4,251 employees.

In 2014, only four instances of occupational diseases vs. 13 in 2013 were recorded.

SOCIAL INSURANCE FUND

The efficiency of LUKOIL Group's health and safety policy is confirmed by the assessment conducted by the Russian Social Insurance Fund. Regulation of the Russian Government No. 524 of 30.05.12 (as amended and restated on 30.07.14) provides for discounts and markups of up to 40% of the insurance rate amount depending on the injury rate parameters calculated using the established methods (payouts, coefficients of frequency and severity of injuries) compared to the average figures recorded for the respective business activities.

In 2014, insurance rate discounts were granted to OJSC Arkhangelskgeoldobycha in the amount of 40%, 17% for LLC LUKOIL-Volgogradneftepererabotka, 40% for both LLC LUKOIL-Teplotransportnaya Kompaniya and Astrakhan Branch, 40% for LLC LUKOIL-Astrakhanenergo, 26% for OJSC RPK-Vysotsk LUKOIL-II (LLC LUKOIL-Trans), and 40% for CJSC LUKOIL-Chernomorye. Markups to the insurance rate were imposed on LLC LUKOIL-Komi in the amount of 19% and 4% for LLC LUKOIL-Volgogradenergo.

In 2014, 36 LUKOIL Group Organizations used a total of RUB 40.2 mln. from the Russian Social Insurance Fund to finance preventive activities (vs. RUB 33.0 mln. in 2013), including:

- the purchase of PPE;
- the purchase of vacation packages to health resorts for employees exposed to harmful production factors;
- conduct of medical examinations of employees;
- conduct of a dedicated working environment assessment.

INJURY RATES

The on-the-job injury rates continued their improvement in the reporting period, thus showing a positive trend. In 2014, the Company's Russia-based organizations had 11 incidents vs. 28 in 2013, with respectively 21 and 30 employees sustaining injuries. In 2014, the Company had three fatal accidents, whereas in 2013 no fatal accidents were recorded. As for motor vehicle accidents in 2014, two accidents (vs. 1 in 2013) were registered, with two individuals being injured each year.

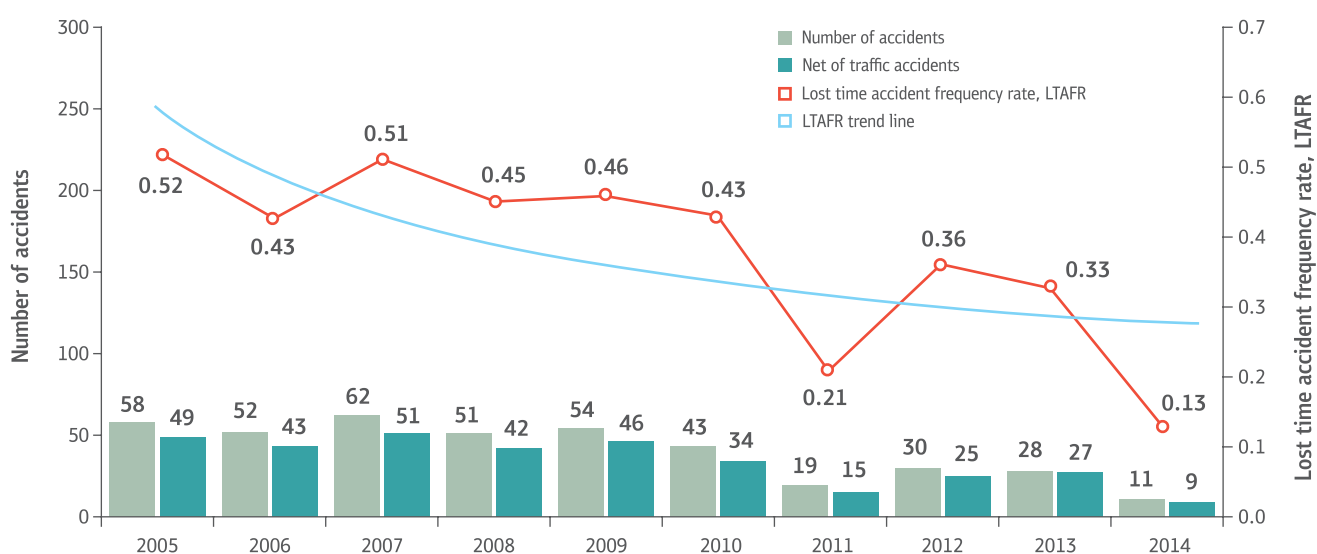
In 2014, the Russian LUKOIL Group Organizations spent a total of RUB 3.5 bln. on health and safety vs. RUB 2.9 bln. in 2013.

INDICATORS	2013	2014
Employees at workplaces that have passed their certification and have optimum and permissible working conditions	38,215	45,300
% of employees with optimum and permissible working conditions of the total number of employees covered by the dedicated working environment assessment or workplace certification	49.3	56.4
Employees at workplaces with a harmful working environment	39,236	34,621

Source: Company data.



Trends Pertinent to Injury Rates and Incidents at the Russian LUKOIL Group Organizations excluding Motor Vehicle Accidents



PARTICIPATION IN THE LAW-MAKING PROCESS

The Company is actively involved in the law-making process. With participation of its employees involved in implementation of the requirements outlined in Federal Laws No. 426-FZ and 421-FZ of 26.12.2013 the Russian Ministry of Labor developed over ten bylaws. The ongoing reform of the statutory regulation of issues associated with working environment assessments has already yielded positive results. For instance, in 2014 the breakdown of working environments by production factors that caused them, that has been prepared following completion of a dedicated working environment assessment,

appears more fair and adequate vs. the findings of the historic workplace certification, which is confirmed by both Russian and foreign occupational disease statistics.

Being a part of the existing regulatory impact assessment process, as well as in RUIE media and those of the Russian Chamber of Trade and Commerce, Russian Trilateral Committee for Regulation of Social and Employment Relations OAO LUKOIL's representatives are actively involved in the discussions of draft regulations seeking to protect the interests of the Company and its personnel.

COMPANY AND SOCIETY

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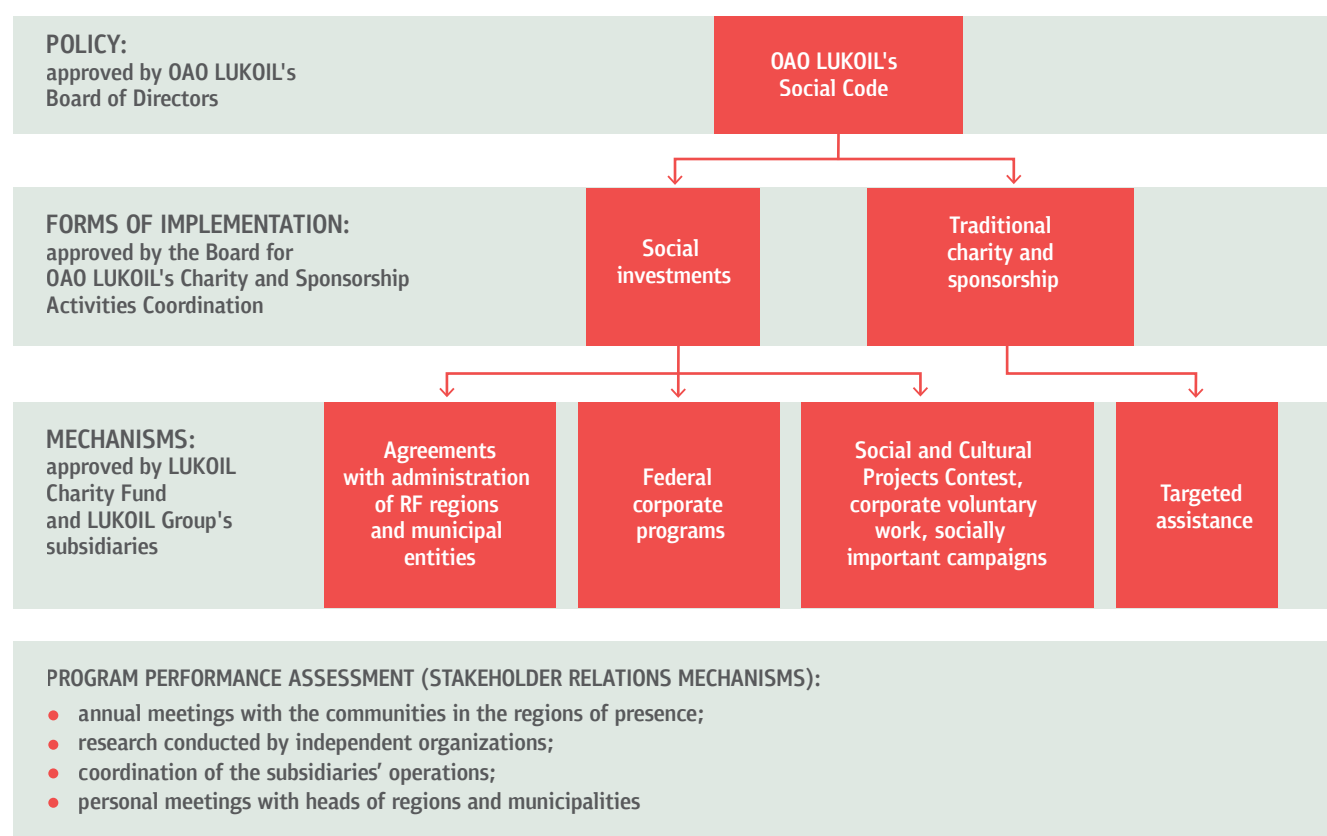
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LUKOIL Group Organizations operate in six Federal Okrugs of Russia, where they have a crucial impact on the social and economic development of the regions and are actively involved in solving the local issues.

The Company's community relations policy is defined in OAO LUKOIL's Social Code. The Company has been using various mechanisms of fulfilling its obligations, upgrading them as new professional forms of such activities come to exist and as our partners get ready to use them.



SOCIAL INVESTMENTS MANAGEMENT SYSTEM



KEY AREAS OF OPERATIONS

Charity Spendings of LUKOIL Group in Russia (RUB mln.)

	2010	2011	2012	2013	2014
Total, including	1,645.1	2,471.5	2,718.1	2,418.2	2,671.6
support of orphanages and children's educational institutions	45.5	41.4	85.2	63.0	32.0
educational programs	130.0	167.0	143.6	148	170.5
support of medical institutions	59.8	153.0	21.9	60.0	79.0
social and cultural projects contest	59.7	74.5	86.3	87.7	87.7
support to the indigenous peoples of the Far North	146.5	147.0	155.0	175.0	217.0
preservation of cultural and historical heritage	90.7	215.6	199.0	139.0	281.2
religion	68.1	73.4	113.0	139.0	191.6
community funds and social agencies	186.0	289.9	376.3	258.6	519.8
targeted assistance	143.2	104.2	79.4	91.0	93.0
sports	715.6	1,205.6	1,458.4	1,258.9	1,001.8

SOCIAL INVESTMENTS

By the Company's definition social investments are financing of programs and projects that create a lasting effect and have positive impact on the life quality in the Russian regions. Social investments are effected via a framework of social and economic partnership agreements made with the administrations of the regions and municipalities and via corporate programs. Stakeholder engagement is part of the management system, is inherent to the management processes and is not viewed as a separate target.

REGIONAL PARTNERSHIP AGREEMENTS

LUKOIL abides by the principles of social partnership and views administrations of the Russian subjects and municipalities as its key partners in resolving social and economic problems existing in the areas of the Company's presence. This approach is an undeniable principle that lies behind social investments.





The agreements address a whole variety of issues, including economy, production, infrastructure, social or other matters, including those that are region-specific (for example, support of the indigenous minorities of the North). OAO LUKOIL holds regular meetings with the regions' authorities to reflect on the parties' performance of their contractual obligations. LUKOIL is fulfilling its obligations thoroughly, which is confirmed by its partners' assessments.

A major share of investments as part of the agreements goes into social infrastructure development in the regions, which stands for construction and renovation of kindergartens, schools, sports facilities, outpatient clinics and hospitals, cultural premises, etc.

For example, in 2012–2014 the Company in conjunction with the Our Future Regional Social Programs Foundation completed its project for construction of six kindergartens with a total capacity of 1.5 ths. children in Astrakhan, Perm, Kogalym, Saratov, district capitals Kotovo and Nikolaevsk in Volgograd Oblast. Following their completion the kindergartens were transferred to the municipal authorities. Consequently their services are available both to the families of LUKOIL's employees and the local residents.

Another major project focusing on development of the social infrastructure in the regions is construction of large sports and recreation centers such as Volzhsky Bereg (in the city of Kstovo in Nizhniy Novgorod Oblast).

LUKOIL is also engaged in implementation of state programs both at the federal and regional level, for example, in organizing the northern fuel supply (Northwestern Federal Okrug), 2014–2020 governmental Social and Economic Development of Indigenous Minorities of the North program (Ural Federal Okrug) and other programs and initiatives of national significance.



For more details regarding the projects please refer to Sustainable Development of the Russian Regions section.



SOCIAL AND CULTURAL PROJECTS CONTEST



One of the most productive forms of social investments made by OAO LUKOIL is the Social and Cultural Projects Contest that has been held on an yearly basis since 2002 by the LUKOIL Charity Fund (hereinafter referred to as LUKOIL CF) and the Company's subsidiaries. The goal of the Contest is to boost performance of regional entities (municipal agencies or NGOs) that provide social services so that development of the regions could gain momentum.

LUKOIL's Social and Cultural Projects Contest was awarded a prize of the Russia's Best Social Projects National Program in the Socially Oriented Contests nomination.

The program has been held with support of the Russian Ministry of Labor and Social Development, Russian Ministry of Natural Resources and Environment, Strategic Initiative Agency, Worldwide Fund for Nature (WWF), Forest Stewardship Council (FSC) and other NGOs.



The Social and Cultural Projects Contest has been organized since 2002 and includes five major nominations: Environment, Charity, Culture and Arts, Fitness, Sports and Tourism, and Homeland. One may introduce additional nominations that are topical for the regions or are accounted for by the governmental priorities in resolution of social matters.

The Contest's geography has been consistently expanding. In 2014, it already covered 15 Russian subjects. Over 13 years local entities submitted over 18,000 applications and implemented over 3,800 social projects.

The 2013–2014 contest budget exceeded RUB 175.4 mln. In 2014, the Contest's budget exceeded RUB 87.7 mln. and grew more than 40-fold vs. 2002.

Submitted and Winning Applications

REGION	2013		2014	
	TOTAL	WINNERS	TOTAL	WINNERS
Perm Krai, Republic of Bashkortostan	1,099	186	1,033	144
Volgograd Oblast	152	42	106	45
Astrakhan Oblast	123	38	107	39
Republic of Kalmykia	11	5	10	5
The Komi Republic, NAO	67	10	124	10
West Siberia (KMAO, YNAO)	87	26	95	23
Nizhny Novgorod Oblast, Vologda Oblast, Vladimir Oblast, Republic of Mordovia, Republic of Mariy El, Republic of Chuvashia	264	78	361	65
Kaliningrad Oblast	94	19	97	17
Republic of Tatarstan	616	138	770	148
Total	2,513	542	2,703	496

JOINT PROGRAMS WITH THE OUR FUTURE FOUNDATION

In addition to the programs run on a centralized basis, LUKOIL's subsidiaries in partnership with the Our Future Regional Social Programs Foundation also implement important social initiatives.

"More than just a Purchase"

In the reporting period the Company launched its unique initiative in Russia that simultaneously covers several sustainable development areas.



The first point of sale of social entrepreneurs' products was opened as part of the pilot project jointly launched by LUKOIL and the Our Future Regional Social Program Foundation.

The goods of social entrepreneurs will be available at a number of LUKOIL's filling stations in Moscow Oblast.

The pilot project implies that convenience stores will sell environmentally clean dairy products, felt items and numerous other products manufactured by social entrepreneurs from Rybinsk, St. Petersburg, Moscow and Moscow Oblast.

Counters with social entrepreneur products are designated with the slogan "More than just a Purchase!"

By purchasing such goods the customers of LUKOIL's filling stations jointly with the Company help develop small businesses and social entrepreneurship on the whole and help resolve social issues.



"Big businesses have found a new effective channel for investments, being part of their corporate citizenship practices, while social entrepreneurs got an additional market for their products".

Vagit Alekperov
President of OAO LUKOIL

LLC LUKOIL-Inter-Card and the Our Future Regional Social Programs Foundation have jointly implemented the first large-scale charity project and provided support to the social service INVATAXI.



Due to its fleet of vehicles equipped with specialized wheelchair lifts INVATAXI is able to take disabled individuals in wheelchairs to medical institutions and rehabilitation facilities in Moscow, to airports, railway stations, on tours around Moscow and Moscow Region, and pilgrimage tours. The company also offers non-profit taxi rides to low-income persons with level 1 disability.

LLC LUKOIL-Inter-Card covered the annual costs for two prepaid fuel cards that permit one to tank over 9 ths. tons of high quality fuel at LUKOIL's filling stations.

We are very appreciative of the support coming from sponsors and benefactors. We are grateful to LUKOIL-Inter-Card for its contribution to our common cause and for the opportunity to make our services more affordable and improve the living standards of disabled people".

Head of the Social Service INVATAXI
Roman Kolpakov

INDIGENOUS ENGAGEMENT



The peculiarity of the Company's operations in Siberia and the Far North is that its enterprises are capable of substantially impacting the lives of the indigenous minorities. These are the Khanty, Mansi, Nenets, Selkups, Komis and other compact communities. Expansion of the oil and gas production operations has caused the regions that are crucially important to such ethnic minorities to be exposed to active subsurface management.

Management Approaches

The Company has been building its relations with the local residents on the assumption that their cultural heritage and traditional lifestyles must be preserved. The Indigenous Minority Relations Policy is defined in OAO LUKOIL's Social Code (section 2.4. Preservation of National and Cultural Identity).

The Social Code provisions are put into practice via annually approved programs that target owners of communal family lands in KMAO, YNAO, NAO, the Komi Republic, West Siberia and Perm Krai.

While implementing its programs, LUKOIL employs a common approach:

- fulfill obligations assumed by the Company under social and economic cooperation agreements with the Russian subjects and municipalities with regard to the improvement of the indigenous minority areas and living communities;
- on an annual basis make direct contracts with stem families and indigenous minority cooperatives;
- jointly work with indigenous minority NGOs such as Saving Yugra, Yamal for the Descendants, Assembly of the Indigenous Ethnic Minorities of the North, Yasavey Nenets People Association, and others;
- implement partner projects with different entities (including municipal ones), for example, ambulatory medical services in NAO (*see the Northwestern Federal Okrug section*);
- support indigenous minority initiatives as part of the social and cultural projects contest.

The form and the contents of ongoing programs depend on the situation existing in the region.

For instance, Khanty-Mansi Autonomous Okrug – Yugra has a thorough regulatory framework that defines the role of oil and gas companies in support of the indigenous minorities: mandatory requirements are included into subsoil user license agreements, there are effective procedures for obtaining approvals with regard to location of industrial sites and compensation amounts, codes of conduct of the oil companies' personnel in the areas traditionally populated by the indigenous minorities are defined. The priority IMN support activities at the regional level include improvement of the areas of conventional nature management, acquisition of facilities, equipment, resources, and reindeer, promotion of ethnographic tourism, support of young IMN professionals, etc.

The social and economic agreements made with the municipalities also incorporate indigenous minority support clauses, for instance, provide for housing, construction of power lines, cultural facilities or other facilities in national settlements or villages. The oil and gas companies have set up services responsible for relations with the indigenous people.

By its 2009 order the Government of Khanty-Mansi Autonomous Okrug – Yugra enacted model agreements between the producing companies and holders of traditional nature management rights. Thus both the role and nature of the indigenous minority support provided by the companies in the region are to a large extent affected by outside factors. The indigenous minority relations personnel of LLC LUKOIL-West Siberia travel directly to the indigenous minority settlements, which makes support more targeted and helps address pressing issues.

In NAO and the Komi Republic the indigenous minority support is provided as part of the multi-tier social partnership system. The key traditional economic activity in NAO that contributes to the preservation of the ethnic group is reindeer breeding, and the primary form of activities is agricultural cooperatives. NAO's priority is to reinforce the tribal communities in the okrug, for budgetary subsidies in the region are for the most part provided to cooperatives. Local municipal entities and NGOs are active participants of the Social and Cultural Projects Contest.

 For descriptions of the specific projects, please refer to *Sustainable Development of the Russian Regions*.

Indigenous Engagement

The Company takes part in major specialized events where they discuss pressing issues linked with the observance of the indigenous minority rights.

For instance, in December 2014, LUKOIL was a co-organizer and participant in the Corporate Citizenship in the Far North Indigenous Engagement conference, taking place in the Public Chamber of Russia. The agenda included legal regulation and protection of the indigenous minority rights, as well as positive practices employed by the Russian companies.



In 2013, Kogalym hosted an international research and practice conference, where the spokespersons for governmental authorities, representatives of the Finno-Ugrian Peoples, scholars, writers, literary scholars, artists and ethnographers from Russia, Finland, Hungary, and France discussed problems of the development of indigenous minority languages, literature, arts and folklore legacy.

The Company was one of the attendees at the congress of the Komi-Perm people, where they discussed ethnic and cultural preservation issues.

LUKOIL and the Russian Association of Indigenous Minorities of the Far North, Siberia and Far East intend to sign a cooperation agreement in 2015 that will make it possible to handle complaints filed by IMN representatives on a centralized basis. The Company also hopes to jointly elaborate common principles on which the relations of the business community and indigenous nations will rest, including without limitation while discussing new bills that affect the interests of the given stakeholder category.

Support of Orphanages, Children's Educational Institutions and Specific Categories of Children

The Company views children support as a top priority issue that is included into every Company's program, embracing charity, sponsorship, development of children's and youth sports and culture. It goes without saying that social investments into future generations are justified. The Company seeks to employ a balanced approach supporting both children who found themselves in an unfavorable situation and those from well-to-do families helping them develop their natural abilities and talents (as part of the Social and Cultural Projects Contest).

The goal of the Orphanages and Boarding Schools Support Program is to help their graduates receive education, improve their health, get a profession and find their place in life.

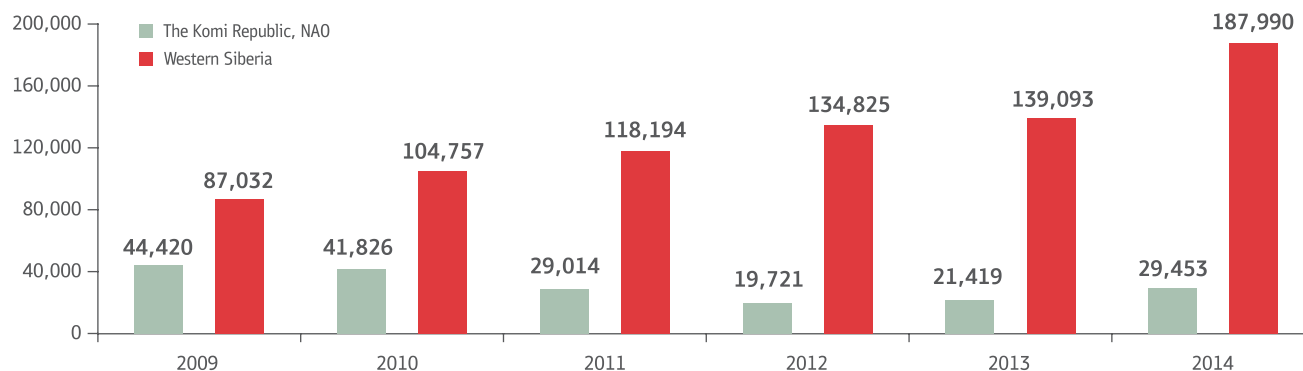
LUKOIL's Charity Fund has been for 10 years paying out LUKOIL's personal scholarships to the graduates of Company-sponsored orphanages who became students of universities or specialized secondary colleges. In 2013, scholarships were paid to 36 orphanage graduates vs. 45 in 2014. For example, in Nizhniy Novgorod Oblast graduates of the Company-sponsored orphanages study at the Kstovo Professional Oil Industry College, they regularly visit the Company's refinery, where they become familiar with the production processes and acquire hands-on knowledge and skills. Later on, provided that they choose to, they can get an employment with the Company. Each year the LUKOIL Charity Fund purchases New Year's gifts and has them delivered to the Company-sponsored orphanages.

In Perm, a contest titled World as It is Seen by Children is held. It is a successor of the project titled We've Got Talent launched by the Fund back in 2010 in Nizhniy Novgorod Oblast. In 2012–2013 the total number of child contestants was 154, of which 13 became winners. That is how they put into practice the crucial social investment principle – disseminate successful models and projects across the Russian regions.

There are ongoing children's education projects jointly launched with cultural establishments. The partner project titled Innovative Multimedia Auditorium and Educational New Generation Products on the Basis of the Aesthetic Education Center Museum of the Pushkin State Museum of Fine Arts" launched in 2014 has taken another step forward. In the same year, the LUKOIL Charity Fund purchased and handed over to the Dogadin State Art Gallery 50 multimedia educational sets How to Look at a Painting. Such projects help make education more appealing to teenagers.

In 2014, the LUKOIL Charity Fund started a new project to support children's arts schools in Astrakhan Oblast. In conjunction with the Ministry of Culture and Tourism of the region it selected four arts schools for which the Fund purchased musical instruments. The goal of the project is to improve the quality of training of young Astrakhan musicians.

Support to the Indigenous Minorities of the Far North, (RUR, ths.)



Perm Krai has been hosting a traditional charity event titled Oilmen for Rural Libraries, as part of which in 2014 the Perm Branch of the LUKOIL Charity Fund purchased course books and generalia, as well as computer equipment for 51 school and rural libraries across the Krai's 16 districts.

The Company pays careful attention to children who are in need of medical assistance. For over 10 years of the UN Program Illustrated Books for Little Visually Impaired Children the Company has been continuing with its project called Book as a Gift to Every Blind Child. In 2013, such books were handed over to specialized children's institutions in Volgograd Oblast, in 2014 they were distributed across Nizhny Novgorod, Kstovo, Vladimir and Arkhangelsk.



Educational Programs

LUKOIL's partnership with educational institutions is comprehensive, for the Company does not only seek to have a sufficient inflow of competent workforce to its enterprises, but also wants to maintain high intellectual capacity in the areas of production that call for up-to-date and innovative solutions.

The Company has ongoing partnership programs with 14 higher educational institutions in various Russian regions.

The strategic approaches adopted by the Company are best exemplified by a unique project in Russia. In 2011, LUKOIL assigned three of its design departments together with the employees, equipment, software, etc. to three universities (Perm National Research Polytechnical University, Tyumen State University of Oil and Gas and Ukhta State Technical University). Nowadays there are real research and design units operating on their basis. Both students, students in the master's programs, post-graduates and teachers are involved in the developments. Not only do they earn money, but also improve their qualifications. This is a way for the ideas that professionals come up with during studies to translate into actual projects and be put into practice.

The Company's educational programs also seek to improve the inventory and facilities of universities, bring the education process to new levels, support the teacher and student talent pool.

Starting 2000 the Company has been paying personal scholarships to the most gifted students of the oil and polytechnic universities. In 2013, about 200 students in different Russian cities were awarded LUKOIL's monthly scholarships of 2,500 or 3,000 rubles, 155 students received such scholarships in 2014. Over the 2013–2014 period the Company has paid out a total of RUB 9.4 mln. of scholarships.

About 60 teachers from the leading oil industry and other higher educational institutions received personal grants under the Company's grant program aimed at supporting young teachers. Between 2013 and 2014 the Company paid out a total of RUB 15.5 mln. of grants.

It has been maintaining the inventory and facilities of the universities on an annual basis, while LUKOIL's representatives are on their management boards. For example, OAO LUKOIL is a member of the Board of Trustees of the Lomonosov Northern (Arctic) Federal University (Arkhangelsk). In 2013–2014 the Company spent RUB 90 mln. on construction of the university's new research library building. The new library has 279 premises with a total floorspace of 16 ths. sq.m that are located on seven floors. The institution's book storerooms have a capacity to accommodate up to 2.5 mln. items. The library building does not only accommodate conventional or multimedia reading halls, but also a spacious auditorium with simultaneous interpretation equipment, classrooms, and the Arctic Fund info center that brings together media devoted to exploration of northern territories, theater stage, music hall, bibliocafé, children's room and a lot more.



Support of Medical Institutions

LUKOIL CF offers support to a number of major specialized medical research centers, such as the Russian Cardiology Research and Production Complex and others.

The Fund's support facilitates development of the medical services system in the regions of the Company's operations. In particular, in 2013–2014 it purchased expensive equipment for Liman central district hospital (Astrakhan Oblast), Astrakhan city clinical hospital for

children No. 1, maternity hospital No.4 in Moscow, St. Alexiy Central Clinical Hospital, Pirogov National Medical Surgical Center, Kaliningrad Clinical Complex; provided funding for Mezen District Hospital in Arkhangelsk Oblast.



In 2014, as part of the LUKOIL for the Benefit of Perm Krai charity event the Company purchased and transferred to the district hospitals 10 ambulances with the necessary medical equipment.

CHARITY AND SPONSORSHIP

Preservation of Cultural and Historical Heritage

Preservation for the generations to come and promotion of the Russian culture and arts are viewed by LUKOIL as an important public mission. The Company has been providing support to museums, theaters, philharmonics, on-stage performance groups both consistently and as part of specific projects (for example, restoration activities or putting on a play). The Company's priority is to support various arts.

In 2013–2014 the Company was partner of the following major cultural events:

- Tretyakov State Gallery – art exhibitions: Mikhail Nesterov. Searching for my own Russia. Commemorating the 150th anniversary of Nesterov's birth, Aleksandr Golovin. Silver Age Fantasies. Commemorating the 150th anniversary of Golovin's birth;
- in the Moscow Kremlin's Museums – The Art of Preservation of Arts. Restoration of the Moscow Kremlin's Museums, Charles Rennie Mackintosh art exhibitions;
- in the State Historical Museum – The Romanovs. Dynasty Portrait, Abode of the Venerable Sergius. Commemorating the 700th anniversary of Sergius of Radonezh exhibition;
- in the Russian museum – exhibitions: Aleksandr Golovin. Commemorating the 150th anniversary of Golovin's birth, Collection of V.A. Kokorev, part of the Collectors of the Russian Museum series;

- The Museum of Russia's Contemporary History was assisted in preparation and publishing of the Chapters in the History of the North Caucasus catalogue (mid XIX – first half of the XX centuries).



The Pushkin State Museum of Fine Arts got funding to set up an archive, a cutting-edge multimedia educational product on the basis of the Museyon Center for Aesthetic Education of Children and Youth, and carry out restoration of a collection of Sumerian cuneiform tablets.

The Fund provided support to the following regional museums of fine arts:

- V.M. and A.M. Vasnetsov Vyatka Oblast Museum of Fine Arts in arranging and holding the V.M. Nesterov. Commemorating the 150th anniversary of Nesterov's birth exhibition and creating multimedia products: The Virtual World of the Vyatka Museum of Fine Arts and The Virtual Tour of Ryabovo, The Memorial Estate of the Artists V.M. and A.M. Vastnetsovs;
- I.I. Mashkov Museum in Volgograd in restoration of S.K. Zaryanko's painting Portrait of Yu.M. Greig;
- P.M. Dogadin State Art Gallery in Astrakhan in arranging the Our Neighbours exhibition;
- State Museum of Fine Arts in Nizhniy Novgorod in arranging the In the Family Circle exhibition;
- A.N. Radishchev Museum in Saratov in acquisition of paintings by P.A. Maskaev.

For many years, the Company has been offering continuous support to the Chaikovsky Symphony Orchestra under the leadership of V.Fedoseev, Chaikovsky State Opera and Ballet Theater in Perm, Kaliningrad Oblast Philharmonia and its Take your Entire Family to a Concert Hall! program.

In the reporting period, the sponsored events included the M. Magomaev International Vocalist Contest.

In 2013, the Fund allocated substantial funds for restoration and renovation of the federal landmark 19 century (wooden) house in Kirov, and in 2014 sponsored the making and erection in Kirov of a monument to the Russian globally renowned artist Fedor Shalyapin.

Publication Projects

It's been several years since the Company began its cooperation with the Classics International Pushkin Fund. In 2013–2014, they completed a joint project of illustrating the Saint Patrons of Russia album by Palekh painters and sponsored a one-of-a-kind edition of the Complete Russian Folklore Collection and preparation of the five volumes of The Complete Works of A.K. Tolstoy.

Revival of Folk Crafts

LLC LUKOIL-PERM has been supporting preservation of folk crafts in the Kama region. Perm Krai is currently one of the few Russian regions that offer a vast diversity of crafts most of which date back to the days of yore. The best examples are annually displayed at the interregional fair, whose primary sponsor is LLC LUKOIL-PERM.

The festivals: Savior of the Honey Feast Day, Elovsk Fish, Savior of the Bread Feast Day, Barda-zien, Sabantuy, and the open children's folk crafts festival Selenite Jewel Box were initiated with direct involvement of LLC LUKOIL-PERM and have now become fully independent.

One third of the Russian folk crafts is concentrated in Nizhniy Novgorod Oblast. LLC LUKOIL-Volganefteprodukt is an active supporter of folk crafts. Year in year out the Company has been engaged in the organization of the contest the Wizards of Nizhniy Novgorod, which is also a trade show. This event enables many folk craftsmen to present their talents to a wide range of Nizhniy Novgorod residents, visitors or potential investors. Moreover, LUKOIL-Volganefteprodukt has been providing support to specific craft societies that are keepers of the ancient crafts secrets. For instance, in 2014 the Company helped out the famous Gorodets goldembroidery factory. It has been regularly placing orders for souvenir items with the cooperative craft societies.

Grants awarded in the Social and Cultural Projects Contest in 2013–2014 in different Russian regions helped arrange cultural events promoting folk crafts.

Support of Religious Denominations

Direct involvement of the Company in the revival of religious traditions and spiritual culture is now an inherent part of the Company's charity policy. In doing so LUKOIL has been focusing on support to institutions whose activities also incorporate community services.

In 2013–2014 the Company allocated funds for restoration of the Church of Resurrection of Christ in Kadashy, reconstruction of a complex of buildings at the Chernigov Patriarchal Metochion, construction of the Church of the Kazan Icon of the Mother of God in the village of Liman in Astrakhan Oblast, and reconstruction of a mosque in the village of Pokachi.



On September 1st, 2014, in Nizhniy Novgorod an Orthodox school named after the Faithful Saint Prince Alexander Nevskiy was opened. Its construction was partially sponsored by OAO LUKOIL.

TARGETED ASSISTANCE

Support to war and labor veterans, and socially disadvantaged groups of individuals are activities that LUKOIL defines as targeted assistance.



Veterans who are former oil and gas workers, II World War veterans and veterans of the labor front enjoy particular attention and are taken care of by the Company. Each year on the eve of the Victory Day they get monetary allowances and presents. The Company also supports families of servicemen who died in local conflicts.

By rendering assistance to the disabled individuals and veterans, not only does the Company support them financially, but it also helps them solve their financial issues on their own and makes them feel needed by the society.

SPORTS

Motor sports (car racing and motor racing) are globally recognized as a major driver of national car industries. Apart from the track records these types of sports are crucial for technology testing and enhancing safety and reliability of civil vehicles.



The LUKOIL Racing Team, a leader in the national car racing, is the only example of long-term investments by an oil company into car racing. Over 17 years the racing drivers have won over 50 Russian championships and cups, brought 500 victories both in Russian and international competitions. In 2013–2014 the drivers once again claimed victories in the following races: Ivan Muller became the FIA WTCC champion, Sergey Afansyev and Andreas Simonsen already two races before the end of the season secured the first place in the international championships FIA GT, and Vladimir Sheshenin became the Russian touring car champion and winner of the Russian Cup. In 2014, LLC LUKOIL-Volganefteprodukt became the title partner of the Roller Coaster, which is the main racing event held on the Nizhny Novgorod Ring Track.

Starting 2001 LUKOIL has been supporting one of the Russia's biggest children's sports organizations the Children's Football League (CFL), being an associate of the Russian Football Union. Every year about 3,000 teams and over 50,000 young football players aged between 9 to 13 representing 80 Russian subjects as well as European and Asian countries take part in CFL tournaments.

In 2002, jointly with the LUKOIL Sports Club, CFL launched a large-scale international tournament called LUKOIL Children's International Champions League that was hosted by various countries and had participants representing the football schools of Europe, CIS and Asia.



In 2013, to mark its 15th anniversary, the LUKOIL Sports Club in partnership with the Board of Sports Programs and Social Projects, Russian Football Union and the European network to counter racism in

sports Fare Network started the LUKOIL Children's Champion Cup that brought together footballers from 30 European countries and football stars, including Branislav Ivanovic, Wesley Sneijder, Dimitar Berbatov, Hristo Stoichkov and other legendary players in their fight against intolerance in the world football. Following 2014 the project was among the UEFA nominees for the Best Projects in European Mass Football, and this year became a part of the Play Against Racism educational program launched in the run-up to the 2018 World Cup.



The LUKOIL Sports Club backed up the Russian President's Decree ordering reinstatement of the Ready for Labor and Defense system and set up the We All Used to Be Kids All-Russian Festival of Sports and Culture that took place in Astrakhan in April 2014 and gathered about 800 children from the oblast's various districts.

For multiple years in a row LUKOIL has been the official partner of the Russian Olympic Committee and one of the founders of the Russian Olympians Support Fund. The Fund offers target assistance to athletes from the Russian Olympic national teams, thus making it possible for future champions to commit themselves to their training for the Olympics and achieve high results.

Regional teams in various sports get support as well.

Starting the 2011–2012 season OAO LUKOIL has been supporting the women's volleyball team Dinamo-Krasnodar. Already back in March 2013 the players of Dinamo-Krasnodar claimed a victory in the finals of the European Challenge Cup, and then won TOP Volley, one of the most prestigious annual tournaments that features winners of various cups and championships. It was the first women's volleyball cup held in Russia in the last 15 years. In the 2013–2014 Russian championships, the team came in forth in the Russian Championships and third in the Russian Cup.

Since 1998 LUKOIL has been sponsoring the men's national cross-country skiing team, and since 2006 the Company has been the title sponsor of the Federation of Cross-Country Skiing of Russia, as well as of both men's and women's national teams. At the 2014 Sochi Winter Olympics, the skiers on the national team won 1 gold, 7 silver and 1 bronze medals.

VOLUNTEER INITIATIVES

Starting 2010 LUKOIL has been holding annual Donor Days to develop one of the forms of corporate volunteering. Over five years the number of employees participating in such donor events in LUKOIL's administration alone exceeded 1,700. In 2013 and 2014, 605 employees of the administration and various subsidiaries donated blood, with the total quantity of blood handed over to medical institutions exceeding 250 liters.



Not only do donor events represent a tangible contribution by the Company's personnel into resolution of a pressing social problem, but they also reinforce the corporate culture, team spirit and togetherness. It is an inherent element of the Company's liability towards the community. The donor movement is actively supported in the regions of the Company's operations. Some individuals taking part in the donor events are honorary blood donors of Moscow and Russia.

In 2013, the Coordination Center for Organization, Development and Promotion of Voluntary Blood Donation under the Public Chamber of Russia expressed gratitude to LUKOIL Oil Company and its personnel who took part in the blood donation campaign.

The Company's subsidiaries also offer a wide support to volunteer programs. For instance, LLC LUKOIL-Volganefteprodukt has been for a number of years implementing such projects as the Rainbow of Young Hearts (which is a successor to the Timurite movement, when children from disadvantaged families help the elderly), AntiSWINE – cleaning up parks and lakes (*for details please refer to Sustainable Development of the Russian Regions*).

DIALOGUES WITH STAKEHOLDERS

While preparing each report LUKOIL holds dialogues (personal meetings) in the Russian regions. The Company views such meetings as an important live feedback from stakeholders. The issues covered by such meetings are reflective of the degree to which the Company's corporate social investment programs meet the social and economic development goals set for such regions, and affect the contents of sustainable development reports.

Nizhniy Novgorod Dialogue

On November 20, 2014, a meeting attended by representatives of OAO LUKOIL and its subsidiaries operating in Volga Federal Okrug, was held in Nizhniy Novgorod. Representatives of the following companies were present: LLC LUKOIL-Volganefteprodukt, LLC LUKOIL-Nizhegorodnefteorgzintez, LLC LUKOIL-PERM, LLC LUKOIL-Permnefteorgsintez, LLC LUKOIL-Permnefteprodukt, LLC Saratovorgsintez and OJSC RITEK. The meeting was attended by both executive and legislative authorities of Nizhniy Novgorod Oblast, municipal authorities, business communities, NGOs, educational and cultural institutions (a total of 48 attendees).

The attendees discussed the Company's operations in Volga Federal Okrug, noted a considerable impact of the ongoing programs, stressed the importance of the existing partner relations and issued proposals regarding their further development.

Proposal 1. Develop social entrepreneurship

The proposal was that the Company should attend a conference on the development of social entrepreneurship in Nizhniy Novgorod Oblast.

Proposal 2. Contribute to the process of involving corporate managers into NPOs' management bodies

The parties to the dialogue stressed the importance of participation of LUKOIL's employees in events held by non-governmental organizations, and of them being members of their management bodies, e.g. boards of trustees. This will reinforce the stability of NPOs' structure and improve their interaction with businesses.

Proposal 3. Create networking forums

The parties to the dialogue expressed an opinion that social issues can only be efficiently tackled if the governmental authorities, business community and non-profit organizations join their efforts. An effective form of such cooperation may be dedicated forums that have yet to be launched.

In her response the spokeswoman for LLC LUKOIL-Volganefteprodukt said that in 2014 such forums for networking with non-profit organizations were created as part of the grant contest's initial phase.



Proposal 4. Network projects

The parties to the dialogue asked the Company about the network projects as part of which identical events are held in various regions of LUKOIL's presence. Such projects are promoting communication between contestants from different regions.

The Company responded by saying that it views the grant contest itself as such a network project, for it is held under the same rules in every region of its presence. Active involvement of LUKOIL CF helps disseminate the grantees' best practices across all other regions. For instance, the widely debated AntiSWINE environmental project in Nizhniy Novgorod providing for cleanup of natural sites by volunteers was subsequently launched in Vologda.

Proposal 5. Share experience in implementing the School – Higher Educational Institution – Workplace program

The speakers have noted considerable effort that the Company has invested in the training of oil and gas professionals under its School – Higher Educational Institution – Workplace program. Another proposal was to establish communication and share experience between the schools engaged in the program.

St. Petersburg Dialogue

On November 14, 2014 in St. Petersburg a dialogue attended by representatives of OAO LUKOIL and its subsidiaries operating in Northwestern Federal Okrug was held. The following companies took part in it: LLC LUKOIL-Severo-Zapadnefteprodukt, LLC LUKOIL-KOMI, LLC LUKOIL-Kaliningradmorneft, LLC LUKOIL-Ukhtaneftepererabotka, LLC LUKOIL-Trans, and OJSC Arkhangelskgeoldobycha. The meeting was attended by the executive authorities of St. Petersburg, Leningrad and Arkhangelsk Oblasts, heads and lead specialists of charity, sports, environmental and youth non-governmental organizations, cultural and arts institutions, business community, including the industry and LUKOIL's partners, as well as the academic community.

The Company's operations in Northwestern Federal Okrug were also highly appreciated; it was stressed that numerous local entities have long-term partner relations with the Company, and owing to grants handed out by LUKOIL they have implemented a number of various initiatives. To further develop the positive practices of social partnership the parties to the dialogue made a number of proposals:

Proposal 1. Partner up in upgrading the social service system

Discussing the subject of potential social partnership the governmental authorities informed everyone of the 17 adopted state programs that define St. Petersburg's social and economic policies, including those aimed at upgrading the social service system. The business community received an offer to get involved in innovative projects, such as construction of specialized residences for single elderly individuals or provision of nursing or taxi services.

Proposal 2. Enhance cooperation with small and medium businesses

The speakers drew the Company's attention to the increased potential of St. Petersburg's small and medium businesses, many of which are capable of successfully acting as suppliers or contractors for larger businesses. The participants came up with a proposal to create forums where small and medium businesses can present their opportunities and achievements to the potential customers. Yet another proposal was to recommend the Company's business partners to get involved with LUKOIL's social programs.

Proposal 3. Use NPO expert opinions in planning and implementing programs

NPO representatives proposed that the Company should focus not only on improvement of orphanage and boarding school infrastructure, but also on the need for programs contributing to socialization and adaptation of their graduates and engage non-profit organizations to share expertise in this regard.

Proposal 4. Financing cultural facilities and cultural events

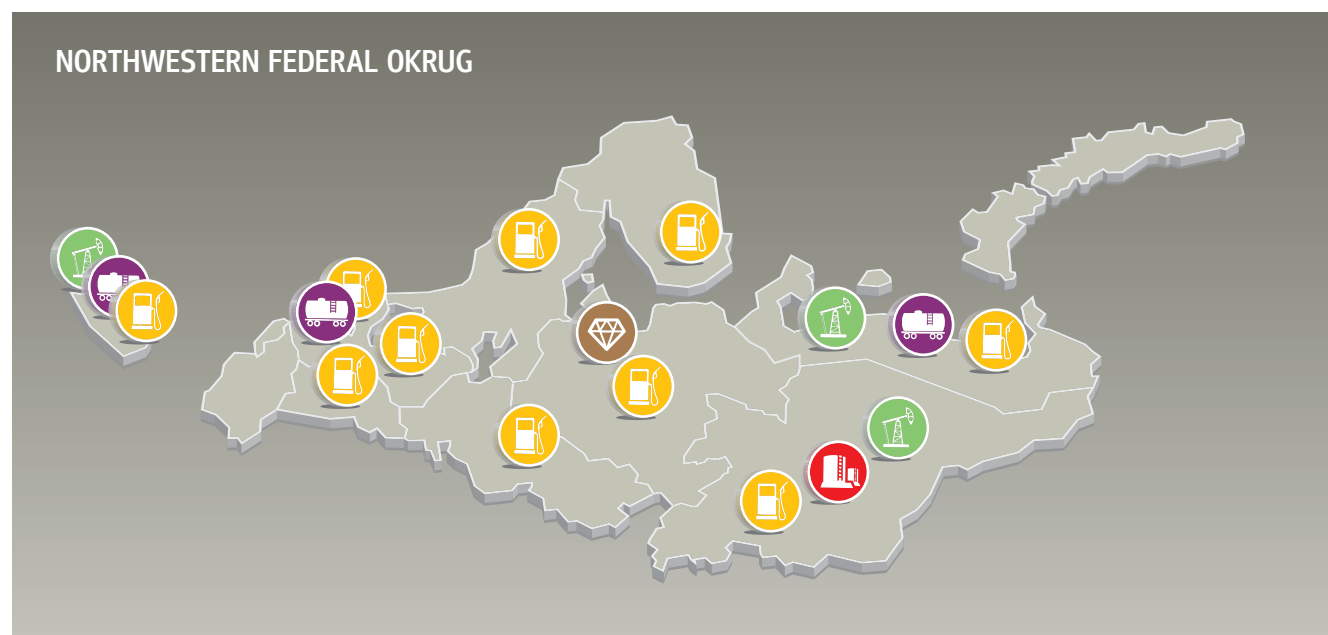
The parties to the dialogue drew the Company's attention to the problem of leisure in the regions of its presence. They voiced a proposal to sponsor (with participation of governmental authorities) guest performances by the leading Russian theaters, exhibitions or other cultural events. The spokeswoman for the Russian Museum expressed gratitude to the Company for its assistance and promotion of the Russian art.

At the end of both meetings the Company's representatives assured the attendees that in planning and implementing its social programs the Company would be mindful of every proposal that had been made.

SUSTAINABLE DEVELOPMENT OF THE RUSSIAN REGIONS

NORTHWESTERN FEDERAL OKRUG	69
VOLGA FEDERAL OKRUG	80
URAL FEDERAL OKRUG	92
SOUTHERN AND NORTH CAUCASIAN FEDERAL OKRUGS	100
CENTRAL FEDERAL OKRUG	112

Republic of Karelia, the Komi Republic, Nenets Autonomous Okrug (NAO), Arkhangelsk Oblast, Vologda Oblast, Kaliningrad Oblast, Leningrad Oblast, Murmansk Oblast, Novgorod Oblast, Pskov Oblast, St. Petersburg



PRODUCTION

LLC LUKOIL-Kaliningradmorneft
LLC LUKOIL-Komi, including LLC Naryanmarneftegaz¹



DOWNSTREAM

LLC LUKOIL-Ukhtaneftepererabotka
LLC LUKOIL-Severo-Zapadnefteprodukt



MIDSTREAM

OJSC Varandey Terminal
LLC LUKOIL-Bunker
LLC LUKOIL-Kompleksny Neftyanoy Terminal
(Complex Oil Terminal)
OJSC RPK-Vysotsk-LUKOIL-II
LLC LUKOIL-Trans, Kstovo Transport Hub
(railway transportation administration in Ukhta)



OTHER

OJSC Arkhangelskgeoldobycha

ECONOMIC ROLE AND INVESTMENTS

The key goal pursued by the Company in the region is effective development of minerals and replenishment of the mineral-resources base, which predetermines the areas of the Company's investments. The primary investment projects include exploration, development of the existing fields and construction of APG utilization infrastructure.

Key Economic Performance Indicators

INDICATORS	2013	2014
Total taxes paid*, RUB mln., including:	76,814	70,676
to the Russian federal budget	53,681	53,788
to budgets of the Russian subjects	23,036	16,820
to the local budgets (cumulative figure)	98	68
Investments, RUB mln.	89,751	76,110

* The foregoing data is provided for the reporting period only, as the investment calculation methods were updated in 2013, and the methods used for calculation of paid taxes were modified in 2013 due to the introduction of the consolidated taxpayer group concept.

Source: Company data.

¹ The structure of the assets operating in the Okrug underwent certain changes in the reporting period. 2014 saw completion of consolidation of the assets of LLC Naryanmarneftegaz and LLC NMNG-MNA, and their licenses were re-issued in the name of LLC LUKOIL-Komi. In April 2014 a joint venture LLC VOSTOK-NAO Oil Company was set up in partnership with Joint Stock Oil Company Bashneft, with the stakeholders owning equal stakes in it: LLC LUKOIL-Komi – 50%; Joint Stock Oil Company Bashneft – 50%. In July 2014 a new service subsidiary – LLC Kompleksniye Laboratorii – was set up that from 01.01.15 assumed the industrial chemical analysis functions.

Upstream



LUKOIL believes that development of Timano-Pechora oil and gas bearing province is of strategic importance to the Company. LLC LUKOIL-Komi has operations in the Komi Republic (61 license blocks) and in Nenets Autonomous Okrug (28 license blocks). In 2014, the enterprise increased its oil production by 12.7% (up to 15.8 mln.tn) which ensured overall increment in oil production in Komi.

High-viscosity oil is developed in this region (Yaregskoye and Usinskoye fields producing more than 2.7 million tons per year), new technologies are tested to develop hard-to-recover reserves, and highly watered oil is produced. LLC LUKOIL-Komi believes that high-viscosity oil reserves are significant and will help to give a new boost to the Komi Republic's oil industry.

LLC LUKOIL-Kaliningradmorneft develops 26 oil fields, of which 25 are onshore fields, and one is an offshore field in the Baltic Sea. The current enterprise's average oil recovery factor (ORF) is 0.51, which is quite a high figure for Russia (global best figure is 0.70).

Oil exploration operations commenced at one of the offshore blocks using The Arctic offshore drilling rig (owner – LLC Gazpromflot). LUKOIL is performing its environmental safety

obligations not only in its own operations, but also by imposing relevant requirements on its partners. Initially the Arctic drilling rig did not have the equipment to comply with the zero waste principle. On LUKOIL's insistence the rig's design was improved, as a result of which all the waste and process liquids are now removed to onshore sites and disposed at treatment facilities.

The key goal for all the region's producing enterprises is to increase APG utilization ¹.



LLC LUKOIL-Komi's investment program aims to achieve a 95% target. In 2014, a desulfurization and gas dehydration unit as well as a sulfur production unit were constructed at the Bayandyskoye field, as well as a gas-turbine power plant at the Lekkerskoye field. The sulfur production unit was officially launched with participation of OAO LUKOIL President V.Yu. Alekperov and head of the Komi Republic V.M. Gayzer on February 4, 2015.

Activities related to the improvement of APG utilization are also underway in LLC LUKOIL-Kaliningradmorneft. In 2013, measures were taken for Grasis membrane unit to achieve its design capacity, which helped the enterprise to secure a 95% APG utilization level.

To improve transportation services for producing enterprises, a Russian border crossing check point was mounted at the marine port of LLC Varandey Terminal, and engineering and technical as well as special purpose protection facilities were upgraded at OJSC RPK-Vysotsk LUKOIL II.

INDUSTRIAL AND ENVIRONMENTAL SAFETY – LUKOIL'S UNCONDITIONAL PRIORITY

In 2014, training exercises were held in the Baltic Sea. Those were dedicated to practicing the activities associated with response to gas and oil gushers, localization and elimination of oil spills during drilling offshore prospecting and appraisal wells. Apart from other locations, the exercises took place at a new facility – The Arctic – which is a self-elevating drilling rig, which LLC LUKOIL-KMN is planning to use to drill several prospecting and appraisal wells by 2015.

The exercises demonstrated that the emergency rescue teams of LLC LUKOIL-Kaliningradmorneft and its contractors, as well as other regional special-purpose services have sufficient capabilities and experience to quickly localize and eliminate marine oil spills.

¹ According to OAO LUKOIL's 2014–2016 Program for Sustainable Utilization of Associated Petroleum Gas.

² The technology enabling to simultaneously remove sulfur-containing compounds and perform drying operations to remove hydrocarbons and/or water. Grasis membrane units help prepare the sulfur-containing gas to meet the requirements for its use as a fuel.

Key Operational Indicators

INDICATORS	2010	2011	2012	2013	2014
Production of raw hydrocarbons (LLC LUKOIL-Kaliningradmorneft, LLC LUKOIL-Komi)					
Oil production, mln. tn	16.7	16.2	16.6	18.6	22.3
Production of natural and associated petroleum gas, mln. cu. m	1,542.9	1,365.7	1,176	2,233	1,129
Oil transshipment, mln. tn (OJSC RPK-Vysotsk-LUKOIL-II, LLC Varandey Terminal, LLC LUKOIL KNT)	18.8	17.4	14.7	15	23.5

Source: Company data.

Downstream



LLC LUKOIL-Ukhtaneftepererabotka is one of the oldest refineries in the industry. Its operations are aligned to OAO LUKOIL's mission. It uses the energy of natural resources for the people's good while preserving the environment, and facilitates long-term economic growth in the region of operations. Based on the development strategy, LLC LUKOIL-UNP pursues three major principles: safety, profitability, and sustainable development.

In 2014, LLC LUKOIL-UNP recorded steadily high economic performance figures. The Company achieved all its operational targets, which resulted in more than RUB 8 billion operating revenues. To improve performance of the enterprise's operations a Road Map was developed whose successful implementation is currently underway. It includes measures aimed at optimized use of production capacity, preparation of commercial products, and cutting costs. In 2014, 46 measures were taken, the benefits from which made up RUB 2.3 billion. In addition, operation of the Company's process units was optimized, which, in particular, included optimization of the operating parameters of primary oil distillation units that ensured a 3.1% increase in the output of light products as compared to the planning figure. Also, efficient operation practices were developed and launched and the composition of the Visbreaking Unit feedstock was changed, which helped stabilize the quality of the produced fuel oils and reduce the consumption of diluents. By year-end, the refining depth grew by 6.1%. Optimized operation of reforming and hydrofining units helped increase production of high-octane EURO-5 gasolines and diesel fuels.

In 2014, LLC LUKOIL-Ukhtaneftepererabotka successfully launched implementation of Lean Six Sigma innovation production technology aimed at improving the enterprise's performance. Ukhta refinery became experimental ground for its pilot testing, while the refinery's personnel were the first in LUKOIL to embrace this philosophy. Following the successful defense of their projects, the participants obtained certificates and were given a Green Belt level qualification. The 2015 total economic benefits from implementation of the projects initiated by Lean Six Sigma participants will make up RUB 82.8 million.



Set up of service stations for motor vehicles at federal highways is one of LLC LUKOIL-Volganefteprodukt priorities.



LUKOIL became one of the first companies to take part in the Federal Road Agency's project titled Concept for Development of the Road Service Infrastructure along General Use Federal Motor Roads. The project represents an initiative for joint (state and business) development of service stations and aims at improved road comfort for drivers. This will enable to use the road services as an incentive for the development of the regions' economic opportunities, as well as for further integration of the Russian transportation infrastructure into the global environment. In addition, this project promotes the development of tourism, popularizes the local places of interest and products of the local business, thus developing regional brands.

The first Multi-Purpose Road Service Station Facility, in which LUKOIL was involved as part of the Russian Motor Road Supervision Agency's program was opened in November 2014 in Volgograd Oblast at M-8 Moscow – Arkhangelsk federal highway (near Chekshino village). It is called Autofocus, and includes filling station No. 41 of LLC LUKOIL-Volganefteprodukt, a parking area for heavyweight trucks, a vehicle screening and weight checking station, a car police station, a full-service coffee bar, a children's playground, a tire-fitting station, a car parts store, technical assistance vehicles and a tow-away truck. The specific feature



of filling station No. 41 is its large sales area (150 sq. m.) that offers an extended range of goods. The motor filling station is fitted out with state-of-the-art equipment and offers only the highest EURO-5 quality fuel, including branded ECTO products. Also, as part of the project at M-8 Moscow – Arkhangelsk highway, the second multi-purpose facility of this format – filling station No. 64 operates in Gryazovets district of Vologda Oblast. The filling station offers a wide range of associated goods and services to the motorists. According to the Modern Filling Station magazine, both filling station facilities were recognized the best filling stations of the month in 2013 and 2014. In addition, filling station No. 64 was recognized as The filling station of year 2013.

The network of filling stations managed by LLC LUKOIL-Severo-Zapadnefteprodukt is expanding, existing filling stations are being upgraded, new equipment is purchased for such stations, quality of customer service is improved, and loyalty programs for the consumers are developed. In the reporting period the enterprise constructed three new filling stations (in Novgorod and Kaliningrad Oblasts). The second stage gas-filling station was reconstructed in Kaliningrad Oblast, as well as at two filling stations in Arkhangelsk and Usinsk. In addition, the project aimed at switching four filling stations to the unmanned operation mode (without personnel) which involves common monitoring from the control room at one of the filling stations, was completed in Arkhangelsk. Three stations are already operating in this mode.

The range of services offered to filling station visitors is undergoing development according to the results of the customer satisfaction surveys that are conducted on a regular basis. In the reporting period the number

of food points increased almost twice with coffee bars opening at more than 100 filling stations and 142 stations being fitted out with coffee vending machines. To make the motorists comfortable there are Wi-Fi spots at 93 stations, 16 filling stations have cell phone chargers, 56 ATMs were installed. Nighttime automatic petroleum products dispenser service was launched (66 filling stations). At daytime this service is available at more than 65% of LLC LUKOIL-Severo-Zapadnefteprodukt filling stations.

To optimize business processes, a corporate automated management system was installed at the filling stations. This did not only help unify the filling stations management and reporting practices, but also improve the speed of customer service.

LLC LUKOIL-Severo-Zapadnefteprodukt has been consistently and in a timely fashion responding to all and any customers' complaints or requests to build trust with the customers and receive their feedback. Anyone is free to call the hotline any time and leave a message with their complaints or proposals concerning the development of services and improvement of customer service at filling stations.

The enterprise was one of the first LUKOIL companies in Russia to launch the Mystery Client project. A freelance company acting on behalf of LLC LUKOIL-SZNP was engaged to assess how well the filling stations' personnel do on a number of parameters. Over its period the project proved to be really efficient: the quality of customer service grew by more than 30%.

Key Operational Indicators

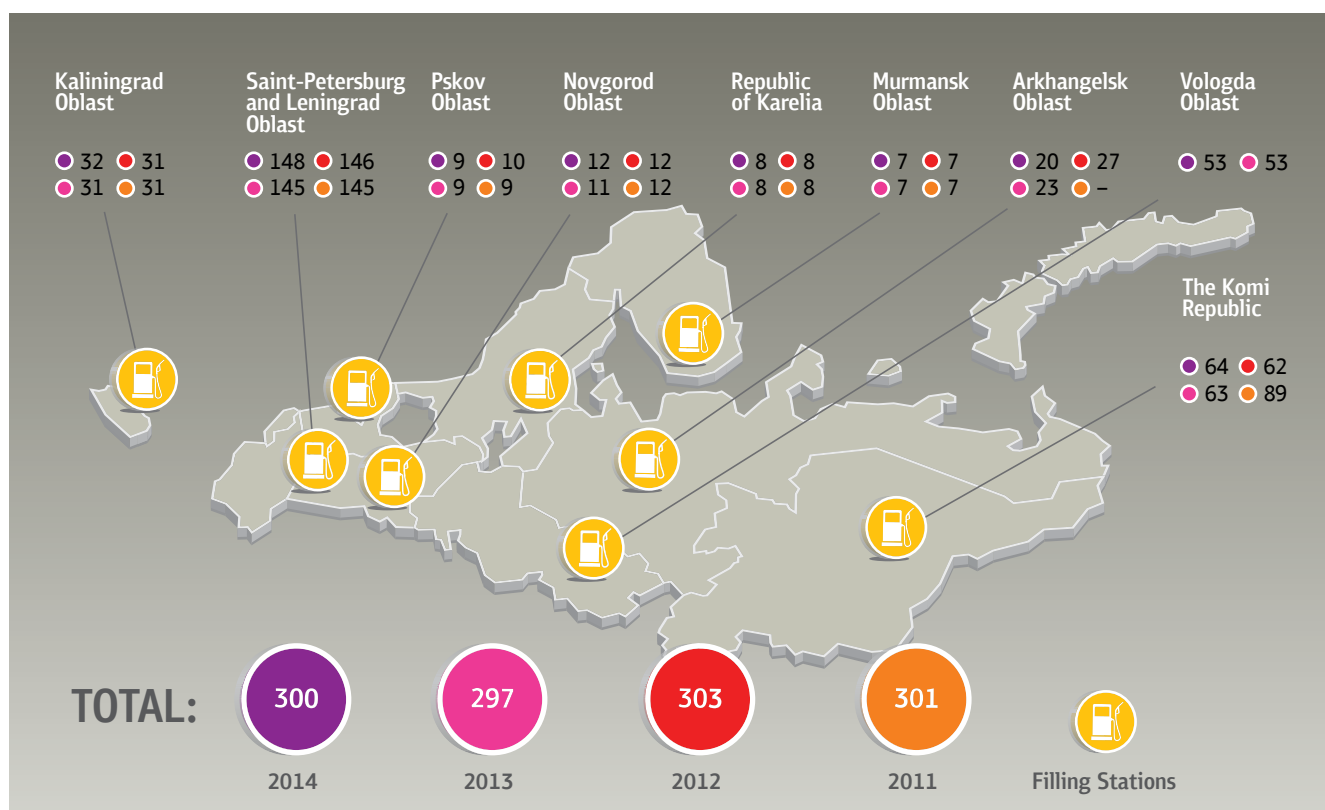
FEEDSTOCK PROCESSING AND OUTPUT OF PRODUCTS LLC LUKOIL-UKHTANEFTPERERABOTKA	2010	2011	2012	2013	2014
Primary oil refining, mln. tn	4.0	4.0	3.7	4.5	4.1
Commercial output, mln. tn	3.8	3.9	3.6	4.4	4.0

FEEDSTOCK PROCESSING AND OUTPUT OF PRODUCTS USINSK GPP (PART OF LLC LUKOIL-KOMI)	2010	2011	2012	2013	2014
APG processing, mln. cu. m	271.3	235.5	220.7	191.3	195.3

Source: Company data.



PRESENCE OF LUKOIL'S FILLING STATIONS IN THE REGION



Source: Company data.

Midstream



The Company has three marine terminals in the Russian Federation – OJSC RPK-Vysotsk-LUKOIL-II, LLC LUKOIL-Kompleksny Neftyanoy Terminal (Complex Oil Terminal), and OJSC Varandey Terminal. About 20 million tons of oil and petroleum products is shipped out every year from these terminals, with more than 115 tankers involved in the operations. The Varandey fixed marine ice-resistance shipping berth was recorded in the Guinness book as the world's northernmost oil terminal with year-round operations. The fixed marine ice-resistance shipping berth is installed at a depth of 17 m in the Barents Sea and has a 360 degree turning radius, which enables to load oil to 70 thousand ton deadweight tankers 22 km offshore all year round.

Other

One of LUKOIL's major investment projects in Arkhangelsk Oblast was represented by preparations for the development of the V. Grib diamond deposit in Mezen district (OJSC Arkhangelskgeoldobycha is

acting as operator). About USD 1 billion was invested into the project, with USD 723 million over 2011–2014 period. The funds were used for exploration and construction of the mining-and-processing integrated works with the annual capacity of 4.5 million tons of ore.

In 2014, the field delivered its first million carats. The anniversary diamond's weight was 19.83 carats. On June 9, the official commissioning ceremony of the new production was held with participation of the Russian President V.V. Putin and LUKOIL's President V.Yu. Alekperov.

The facility's personnel is mostly represented by the residents of Arkhangelsk Oblast (about 2,000 people, along with the employees of contractors) – prior to start of operations they received free occupational training and advanced training.

It is expected that OJSC Arkhangelskgeoldobycha's tax assessments to budgets of all levels during the field operation period will exceed RUB 30 billion. The profit tax and mineral production tax alone came to around RUB 2 billion in 2014.

¹ Part of LLC LUKOIL-Trans.

“Development of diamond deposits stands for attracting investments, creating new high-income jobs, and additional budget revenues. The social benefits achieved through the involvement of the investors into tackling the issues of great importance for the region’s population are also a significant factor for the region”.

Serguey Shevelev, Minister of Natural Resources and Forestry of Arkhangelsk Oblast

PARTNERSHIPS WITH THE AREAS OF PRESENCE

The Company entered into social and economic cooperation agreements in the key areas of its presence (Leningrad Oblast, Saint-Petersburg, the Komi Republic, Kaliningrad and Arkhangelsk Oblasts).

In the **Komi Republic** the social and economic partnership is focused on construction and upgrading of the socially important infrastructure (establishments of culture and education, hospitals, polyclinics, sporting facilities, etc.).



One of the major regional projects was the construction of an Ice Palace in Usinsk completed in 2013 with LLC LUKOIL-Komi’s financial support. The enterprise financed more than 90% of the total facility costs. Also, as part of the social partnership agreement with Municipal Formation Urban District “Usinsk” the Company allocated funds to purchase the equipment and sports gear.



In 2014, Usinsk, the basic oil production center in the Komi Republic, celebrated its 30th anniversary, while the regions’ oil and gas industry celebrated its 85th. In connection with the anniversaries, LUKOIL supported a number of events, including as part of the Social and Cultural Projects Contest, for example, Anniversary Train (a tour by Usinsk and Usinsk district on-stage performance groups across the towns and cities of the Komi Republic). According to the priorities of the social policy, LUKOIL continues its support of educational establishments in the regions.

In 2014, LLC LUKOIL-Komi’s in-house scientific and educational laboratory was opened in the capital of Komi based on the Syktyvkar State University. The biotechnology laboratory has a wide range of equipment that helps resolve biotechnological problems using microbiology, molecular biology, analytical chemistry, and cellular biology methods.

Another significant milestone for the region was the opening of LLC LUKOIL-Ukhtaneftepererabotka’s own classroom at Ukhta’s oldest institution of education, the oil and mining college. The classroom was completely re-equipped and fitted out with cutting-edge office hardware to improve quality of the training process. In addition, the college received teaching aids for students containing valuable information on the technical features of processes at LUKOIL’s oil refineries.

Social development program is continuing in Yarega settlement. Significant funds were invested into repairing educational and sporting institutions and facilities for children. For instance, in the reporting period nursery school No. 32 and Shakhter sporting center were among such facilities.

Cooperation with municipalities is continuing. In 2014, as part of the Social Partnership Agreement between LUKOIL-Ukhtaneftepererabotka and administration of the Municipal Formation Urban District Ukhta, the city’s social infrastructure was improved. Especially important was the Company’s quick help to comprehensive school No. 14. Oilmen’s financial support helped to quickly complete restoration after an accident with the heat supply system during severe frosts.

¹ For more details on fulfilment of agreements with regional administrations please refer to http://lucoil-komi.lukoil.com/main/static.asp?art_id=1001 (LLC LUKOIL-Komi).

Under the Agreement the enterprise also provided assistance to a number of Ukhta city preschool institutions and post-secondary training institutions, culture and sports institutions, and to Ukhta Children's Hospital and Eye Microsurgery Center in purchasing medical equipment.



LUKOIL considers development of environmental tourism in Russia's northern regions to be one of the factors that may facilitate sustainability of the local economy. In 2013, LLC LUKOIL-Komi acted as a general sponsor for the Hedgehog international environmental tourism contest. More than 200 dedicated experts from different regions of Russia and abroad joined the contest. The plan is to make it an annual knowledge sharing event.

In February 2013, LUKOIL signed a new three-year agreement with **Leningrad Oblast** which provides for long-term projects involving construction of new and reconstruction of existing transportation and storage facilities for oil and petroleum products as well as expansion of the motor filling station network. The Company undertook a commitment to construct a petroleum product pipeline from Primorsk port to Vysotsk terminal, 12 filling stations and a bitumen storage facility. This project will help keep the bitumen prices stable and increase the scope of road construction in the region.

LLC LUKOIL-Severo-Zapadnefteprodukt is a party to the regional-level socially significant initiative entitled "North-West Strategic Partnership", which is outside the scope of the Agreement. The initiative's founders are Russian subjects of Northwestern Federal Okrug and major regional companies. The partnership's goal is to facilitate interaction between governmental authorities, businesses and public organizations in the development and implementation of the socio-economic policy in the Russian North-West, support regional investment projects implemented jointly by the public-private partnership.

LUKOIL sponsors the St. Petersburg International Economic Forum.

In September 2014, the opening ceremony of the Company's new Saint-Petersburg office center on Aptekarskaya embankment took place. Representative offices of a number of the Company's subsidiaries were

opened there. The building inherited the city's traditional "palatial" style and fits in well with the architecture of its historical part. LLC LUKOIL-Severo-Zapadnefteprodukt was acting as an official customer of the construction project.

The V. Grib field is located in the subsidized Mezen district of Arkhangelsk Oblast, where OJSC Arkhangelskgeoldobycha is the only industrial enterprise, and therefore traditionally its efforts are of a clearly socially responsible nature. First of all, it manifests itself in the human resources policy: priority in employment is given to the local residents. Social projects of NGOs and village festivals are also supported, targeted assistance is provided to the local residents. As part of the Cooperation Agreement between OAO LUKOIL and Government of Arkhangelsk Oblast, the Company allocated more than RUR 140 million for construction of a new school building for 450 pupils in Mezen.

Under the Agreement, funds are provided for reconstruction of the Mezen district hospital building and hockey club Vodnik.

"This project would be unrealistic without LUKOIL's support."

*Igor Orlov,
Governor of Arkhangelsk Oblast*

In 2013–2014, OAO LUKOIL continued execution of its Cooperation Agreement for 2012–2017 with the Government of Vologda Oblast, whereby the Company reconstructed 2 filling stations, and expanded its filling station network in the region by purchasing 8 and constructing 2 more filling stations. According to the Agreement, LUKOIL is developing its network of multi-purpose filling stations along the region's federal motor road offering a wide range of associated goods and services.

INVOLVEMENT IN GOVERNMENTAL PROGRAMS

LLC LUKOIL-Severo-Zapadnefteprodukt is taking part in the governmental program entitled Northern Delivery as a supplier of fuel and lubes to remote and hard-to-reach settlements and operations located in Nenets Autonomous Okrug (NAO) and the Komi Republic. The enterprise is fulfilling the assumed obligations in full and ensures sufficient and timely deliveries of petroleum products of guaranteed quality.

Following 2014, NAO Governor Irog Koshin stated that LLC LUKOIL-Severo-Zapadnefteprodukt has proven to be a reliable partner for the region as part of the Northern Delivery program.

Structure of Charity Expenses



ENVIRONMENTAL PROTECTION

In 2013, as part of the Fifth Northern Investment Forum titled Development of Minerals in Russia's European North that was held in Syktyvkar, LUKOIL presented its draft 2014–2018 Environmental Safety Program. The Program's major targets in Northwestern Okrug are:

- achievement of 95% APG utilization level;
- construction of treatment facilities at the Yarega field oil mines;
- construction of a new oil sludge processing unit at the Usinsk field;
- construction of new waste disposal sites;
- rehabilitation of disturbed and oil-contaminated land;
- prevention of pipeline accidents;
- improvement of the zero waste principle in upstream operations at offshore fields in the Baltic Sea.

Environmental Monitoring



In 2013 and 2014, the Company released its regular issues of the Overview of Outcomes of Environmental Monitoring at the Kravtsovskoye Offshore Oil Field (D6) including monitoring of the coastal zone of the Kurshskaya spit, satellite monitoring for contamination of the sea surface with oil, and vessel monitoring.

The area of satellite monitoring, in addition to the Russian part, also included Polish and Lithuanian sectors of the Baltic Sea.

The conditions of the marine environment were inspected on a monthly basis by checking the areas in the immediate vicinity of the ice-resistant platform and in the coastal area, including near the Kurshskaya spit. In July 2013, a comprehensive environmental survey of the entire region was conducted. The data was collected at weather stations located onshore and at the platform, as well as at seismic stations on the sea bottom and onshore. This helped obtain new data on seismic activity near the platform. The algae acting as an indicator of oil contamination or affected water quality were examined in the coastal zone, petroleum product content was analyzed in the water (including mouths of watercourses flowing into the sea) and on the beaches. The monitoring data, apart from other sources, is presented at the museum of the Kurshskaya Spit national park, where in 2014 a mobile exhibition entitled Algae: Simple and Amazing was set up to demonstrate the collection of the World Ocean Museum. Birds were recorded on coastal walking routes and from a motorboat.

Initial aggregation of the monitoring data was performed by co-contractors. Further on, all the data was entered into the database and Ecomorneft Geoinformation System. The environmental department of LLC LUKOIL-Kaliningradmorneft conducted real-time analysis of the environmental situation.

The resulting data that were obtained helped make a conclusion that the Company's offshore oil production operations in the Baltic Sea do not affect the environment. In particular, satellite observations failed to identify any oil slicks caused by the FOIRP or the underwater pipeline. Vessels are still a major source of oil pollution of the sea surface. Industrial environmental monitoring confirmed efficiency of the measures taken by LLC LUKOIL-Kaliningradmorneft to ensure protect the environment of the Kravtsovskoye oil field.

In 2014, environmental monitoring activities were conducted at the shelf of the Baltic Sea during well drilling operations following deactivation of The Arctic Jackup Floating Drilling Rig. The data obtained in the course of monitoring of the marine environment components were presented at the scientific and practical conference entitled Environmental Condition and Protection of Nature in Kaliningrad Oblast: Challenges and Solutions. The monitoring data demonstrated efficiency of the zero waste principle when drilling appraisal and prospecting wells.



Key Environmental Measures

Environmental Safety at Midstream Facilities



Plans of environmental protection activities at the Midstream enterprises are focused on ensuring security during tank farm and main product pipeline operations, as well as during load handling operations at elevated railway tracks and marine distribution terminals. Treatment facilities of OJSC RPK-Vysotsk-LUKOIL-II were reconstructed in the reporting period. Employees receive regular advanced HSE training.

Environmental components are monitored near the transportation terminal locations. The condition of onshore facilities in Nenets AO and marine ecosystems of the Barents Sea is analyzed on an annual basis. Thus, in the reporting period engineering-geocryological monitoring of the terminal basements was performed at the Varandey terminal, as well as environmental onshore and offshore monitoring. Every three months a survey of bird and mammal species is conducted in Nenets AO.

Another key focus area is represented by a series of measures aimed at the prevention of unauthorized criminal connections to the main petroleum product pipeline.

Key Downstream Environmental Measures



In 2014, LLC LUKOIL-Ukhtaneftepererabotka began implementation of its project for installation of a vapor recovery system at the light petroleum products loading rack, which will help secure a 30% reduction in hydrocarbon emissions.

Environmental Programs And Projects, Preserving Biodiversity

The project for restoration of the numbers and species composition of biological resources in northern rivers is one of the major components of LLC LUKOIL-Komi's environmental program. It has already been underway for eight years. Over this period more than 900 thousand whitefish and grayling baby fishes were released into the Pechora River. A similar project is implemented at the Izhma River of Sosnogorskiy district.

LUKOIL also takes part in the GEF-UNDP program for the biodiversity preservation and development of protected natural areas, in particular the Komi forests.



Interaction with the Environmental Activists

In 2013, LLC LUKOIL-Komi invited representatives of the Russian national public organization All-Russian Society of Nature Conservation (RSNC). Jointly with the environmental service representatives of the Usinsk enterprises, from a helicopter the visitors inspected beds of the Kolva River and the surroundings up to the Voyzeshor brook. The delegation also visited production facilities, areas of land rehabilitation activities, including in the vicinity of the Bezmyannyi-3 and Bezmyannyi-5 brooks, and familiarized itself with the technology of oil pipeline construction with application of reinforced polymer pipes.

SOCIAL AND CULTURAL PROJECTS CONTEST

In 2014, LLC LUKOIL-Komi and the LUKOIL Charity Fund held the tenth Social and Cultural Projects Contest with awards available in six nominations: LUKOIL: Preserving Traditions, LUKOIL Brings Out Talents, LUKOIL: Living a Sports Life, LUKOIL: Caring for People, LUKOIL: Learning the World, and LUKOIL: Showing Love to Nature. In Kaliningrad Oblast the contest was held for the seventh time.

Results of the Social and Cultural Projects Contest

Contest operator	2013		2014		Regions of project implementation
	Number of projects submitted for the contest	Number of winning projects	Number of projects submitted for the contest	Number of winning projects	
LLC LUKOIL-KMN and LUKOIL Charity Fund	94	19	97	17	Kaliningrad Oblast
LLC LUKOIL-Komi and LUKOIL Charity Fund	67	10	124	10	The Komi Republic and Nenets Autonomous Okrug

Due to the fact that 2014 was announced the Year of Culture in the Russian Federation, a special nomination titled Northern Diversity was introduced with a record high number of projects and talent teams from the Komi Republic and Nenets AO (131) joining the contest in this nomination. This year recorded the highest public activity over the whole 10 years of hosting the Contest in these regions – 124 projects from 18 municipalities were submitted for the contest¹.

Examples of projects financed

Environment and Culture. Musical Arboretum (Kaliningrad)



There are districts with very few trees in Kaliningrad. The local Philharmonic Hall is located in one of such districts. As a result of the project several tree types were planted with nameplates containing tree names and explanations of how the plants are associated with the world of music, the territory was landscaped, walkways were laid. A thousand people were involved in the project. They included city residents, mass media people, heads of district administrations, as well as Kaliningrad youth, which made it a socio-environmental event of major importance for the city.

Sustainable Use of Water (Ladushkin, Kaliningrad Oblast)

Employees of the New Horizons Regional Rehabilitation Center for Disabled People implemented a closed loop system for utilization of water used for the jacuzzi enjoyed by their patients. As a result, the water savings were significantly increased – during the system testing period it was 10 to 12 cubic meters per working day. The quality of treated water was consistent with the sanitary norms applicable to drinking water.

Culture. Promotion of Classical Literature (Kaliningrad)



Kaliningrad regional public fund of culture issued a collection of audio texts entitled Russian Literary Anniversaries 2014. Twentieth Century, and arranged for broadcasting of the pieces on radio. The project was dedicated to the prominent writers, whose anniversaries were celebrated in 2014. The project also helped the actors of Kaliningrad Oblast Dramatic Theater to prepare new staging performances.

Regional Studies. Organizing work of the Scientific Society for pupils and teachers of a comprehensive school (Krasnoye settlement of Zapolyarnyi district, NAO)

The Scientific Society for pupils and teachers was created in the settlement's comprehensive school in 2013. Its goal is to involve gifted children in research. Teachers organize expeditions to remote areas of NAO, and children process the collected data and write their papers. For example, in the course of the expedition to Malozemelskaya and Kaninskaya tundras young researchers collected data on the local wedding rites and described them. Small water bodies were studied in Nenets state nature reserve. Both the children and teachers told about their work at the 8th Youth Scientific Forum of the Russian North-West entitled Step into the Future that was held in Murmansk, and at the 21st all-Russian conference of young researchers in Moscow. Two hundred schoolchildren and 60 school teachers were involved in the project.

A similar project is now underway in Nizhny Odes settlement (I Am a Researcher Children's Scientific Research Club), and thus the positive experience of social projects is disseminated across different districts of the Komi Republic and Nenets Autonomous Okrug.

Social Projects. Caring for People (Syktyvkar)

Power of the Good, the regional non-profit children's charity foundation developed a project to create comfortable environment in healthcare institutions for children, in particular, at the Republican Mental Hospital. A number of outdoor playgrounds, recreation areas, and areas for creative development were constructed on its premises.

¹ For the list of the projects that were submitted for the Contest please refer to LLC LUKOIL-Komi official website at <http://lukoil-komi.lukoil.com> (under Business and Cooperation/Contests section).

The Fund's employees and volunteers organize children's programs: Happy Birthday, I am Drawing This World, and Clown Doctor!. These conditions help reduce the emotional anxiety and aggression among the children which helps stabilize their condition.

SUPPORT OF THE INDIGENOUS MINORITIES

LLC LUKOIL-Komi is building up its relations with the local population aiming to promote preservation of their cultural heritage and traditional life style. Rules of conduct for in-house and contractors' employees in the areas inhabited by the indigenous minorities are in place at the enterprise, which are based on the Company's principles.



The key traditional economic activity in Nenets Autonomous Okrug is still reindeer breeding.

Under the annual cooperation agreements between OAO LUKOIL and NAO administration, LLC LUKOIL-Komi provides funding for construction and maintenance of a winter motor road up to the Khorey-Ver settlement that is necessary for SPK Put' Ilyicha, the reindeer breeding farm.

Socio-economic development agreements are signed with the reindeer breeding farms, including SPK Harp, SPK Erv, and SPK Izhemsk Reindeer Breeder & Co. in the areas of the Company's presence. Reindeer breeders purchase the necessary equipment, fuel and lubes, construct corrals, dwellings for farm workers, and go hiking with their families.

For a number of years LLC LUKOIL-Komi has been providing patronage assistance to the comprehensive school of Krasnoye settlement. This is a base settlement for SPK Harp and SPK Erv. Reindeer breeders' children study there. Over the seven years of the Company's sponsorship,

the school received new furniture, interactive devices and multimedia projectors, a mobile laboratory of physics and musical instruments.

Over the last eight years LLC LUKOIL-Komi, administrations of NAO and Zapolyarnyi district, social organization Yasavey and Total Exploration Production Russia oil company have been implementing a healthcare project titled Red Rawhide. The goal of this project is to improve access to medical assistance for the indigenous people, the nenets, and the komi in remote areas of the Subarctic polar region – in Bolshezemelskaya and Kaninskaya tundras, in Khorey-Ver, Kharuta, Karatayka, Nesi, and Ome settlements. In the course of the project more than 4,000 people were examined, of them 1,135 people were reindeer breeders and members of their families.

In 2013–2014, mobile medical crews were expanded to include multi-discipline practitioners, as well as nurses specializing in functional diagnostics that were performed using special-purpose equipment.

LLC Varandey Terminal offers free helicopter transportation services for residents of the Varandey settlement.

PUBLIC RECOGNITION

In 2013 and 2014, the Ukhta Chamber of Commerce and Industry recognized LLC LUKOIL-Komi as one of Ukhta's best philanthropists as part of the Christmas Contest among the enterprises, organizations, institutions, and sole proprietors.

In 2014, LLC LUKOIL-Komi won the regional stage of the All-Russian contest titled Russian Organization of High Social Efficiency in the nomination For Participation in Tackling Social Issues of the Regions and Development of Corporate Charity. The enterprise was second in the nomination For Talent Pool Development in Production Companies.

In 2013, LLC LUKOIL-Ukhtaneftepreperabotka won the regional stage of the All-Russian Russian Organization of High Social Efficiency contest in the nomination For Talent Pool Development in Production Companies. In 2014, the Company was recognized leader of the Russian Contest titled Success and Safety for its efforts aimed at the improvement of labor health and safety, and preservation of its employees' life and health at work. The contest was held by the Russian Federation Ministry of Labor and Social Protection. Besides, in 2014 LLC LUKOIL-Ukhtaneftepreperabotka's social partnership was recognized the best in the Komi Republic. The Company's collective bargaining agreement won the contest titled Best Collective Bargaining Agreement 2014 held by the Komi Republic's Ministry of Economic Development. Besides, LLC LUKOIL-UNP's collective bargaining agreement was recognized as number one following the contest held by the committee for the Komi Republic of the Russian Oil and Gas Industry Construction Trade Union (Neftegazstroyprofsoyuz). Another company's achievement in 2014 was its second place at the republican professional contest for the best company in terms of health and safety at primary trade union organizations.

Republic of Bashkortostan, Mariy El Republic, Republic of Tatarstan, Republic of Udmurtiya, Republic of Chuvashia, Perm Krai, Kirov, Nizhniy Novgorod, Orenburg, Penza, Samara, Saratov, and Ulyanovsk Oblasts



PRODUCTION

LLC LUKOIL-PERM

OJSC RITEK¹ (TPP TatRITEKneft, TPP RITEK-Samara-Nafta, TPP RITEK-Uraloil)



DOWNSTREAM

LLC LUKOIL-Permnefteorgsintez

LLC LUKOIL-Permneftegazpererabotka²

LLC LUKOIL-Volganefteprodukt

LLC LUKOIL-Nizhegorodnefteorgsintez

LLC LUKOIL-Nizhnevolzhsknefteprodukt

LLC LUKOIL-Permnefteprodukt

LLC LUKOIL-Uralnefteprodukt



PETROCHEMICALS

LLC Saratovorgsintez



MIDSTREAM

LLC LUKOIL-Trans (Perm Transport Hub, Kstovo Transport Hub, Volgograd Transport Hub (railway transportation administration in Saratov))

LLC LUKOIL-Kambarskaya Bulk Plant

ECONOMIC ROLE AND INVESTMENTS

The Company's strategic challenge in this federal okrug is to ensure hydrocarbon production growth, including through the use of cutting-edge technologies and state-of-the-art equipment. Funds are invested into development of the upstream infrastructure, as well as into projects for utilization of associated petroleum gas and HSE improvement.

New facilities are constructed and existing ones are reconstructed at the refineries and petrochemical enterprises to increase the refining depth and produce new products.

Key Economic Performance Indicators

INDICATORS	2013	2014
Total taxes paid*, RUB mln., including:	112,337	99,054
to the Russian federal budget	91,521	80,271
to budgets of the Russian subjects	20,325	18,336
to the local budgets (cumulative figure)	492	447
Investments, RUB mln	97,862	77,029

* The foregoing data is provided for the reporting period only, as the investment calculation methods were updated in 2013, and the methods used for calculation of paid taxes were modified in 2013 due to the introduction of the consolidated taxpayer group concept.

Source: Company data.

¹ In April 2013, OAO LUKOIL acquired a 100% interest in CJSC Samara-Nafta.

² The enterprise joined the structure of OJSC LUKOIL-Permnefteorgsintez on October 31, 2014.



Upstream

Perm Krai



LUKOIL has production operations in old oil production regions of the federal okrug: in Perm Krai, Samara Oblast and the Republic of Tatarstan. In 2014, Perm Krai celebrated the 85th anniversary since the start of the first local oil production operations. Innovations utilized by OAO LUKOIL's subsidiaries help maintain an efficient level of hydrocarbon production. Following 2013 and 2014, LLC LUKOIL-PERM¹ recorded an increment in the oil and gas reserves that replenished the production, and began pilot operations at four new fields. LLC LUKOIL-PERM has a total of 125 subsoil use licenses. Oil is produced at 101 fields from 6.8 thousand producing wells.



Innovation solutions help discover new fields and improve production at the existing ones. An example would be the production of oil from under potassium salt accumulations of the Verkhnekamskoye potassium-manganese salt deposit. A unique well reaching more than 4.5 kilometer in depth was drilled at the Verkhnekamskoye deposit. As a result, the Rostovitskoye field was discovered with more than 4.2 million tons worth of reserves. Another field (named after Sukharev) was discovered within this license block, which is noteworthy due to the fact that an artificial island was created in the Kama water area for well construction purposes.

A new well producing oil from under the Kama water area was launched at the Osinskoye field. The project is unique due to the fact that the well was drilled onshore, outside the water protection zone, and makes it possible to develop oil plays under the river bottom.

The Company continued implementing multi-stage hydrofracturing, which is a technology for dual reservoir operation delivering a significant well output increase. Another important project is focused on testing and application of downhole water transfer equipment (implemented in two wells). Its utilization helps simultaneously produce formation water from one formation and inject it into another one without construction of any surface infrastructure.

¹ Jointly with its subsidiaries, CJSC Kama-Oil and CJSC PermTOTIneft.

APG Utilization

In August 2014, LLC LUKOIL-PERM completed its comprehensive project to achieve a 95% APG utilization level at the Southern group of fields and utilization of sulfurous natural gas at the

Kokuyskoye field. The corporate APG utilization program in Perm Krai also implies construction of the second APG processing line at LLC LUKOIL-Permneftegazpererabotka, which will help increase feedstock utilization.

As part of this program an investment project is also underway for the construction of an in-house power generation facility at the Ilychevskoye field (a gas turbine power plant with a total of 16MW of electric generation capacity). Following 2014, first stage construction was completed. Full implementation of the project will make it possible to utilize 53 million cubic meters of APG and generate up to 20 million kW-h of electricity per year.

One of the most large-scale projects of LLC LUKOIL-PERM as part of the corporate program is aimed at the commissioning of a gas pipeline in 2013, whereby the APG produced at the oil fields would be exported to the Yavinskaya state district power station (subsidiary of OJSC E.ON Russia). The annual APG supply volume is expected to comprise 240 million cubic meters. This will help reduce the plant's utilization of solid fuel, while in summer it will be able to do without solid fuel at all.

LLC LUKOIL-PERM first utilized the two-level APG utilization technology with the use of Capstone equipment based on a gas-turbine plant installed at the production shop. The technology makes it possible to process 2 million cubic meters of gas, generate electricity and heat for the shop's in-house production needs.

Samara Oblast

LUKOIL is gaining experience in conducting hard-to-recover oil development operations. OJSC RITEK's territorial subdivision TPP RITEK-Samara-Neft began examination of the Domanic sediments in Samara Oblast. Preliminary data suggests that the reserves of such oil in the Volga-Urals oil and gas bearing province total more than 30 billion tons.

Republic of Tatarstan



In 2014, the Company's oil production in Tatarstan reached 1 million tons, which happened for the first time since the beginning of OJSC RITEK's operations in this Republic (since 1995). In addition to that, OJSC RITEK achieved a 95% APG utilization level in the Republics of Tatarstan and Udmurtia. The Company began upgrading two oil treatment units that receive feedstock from 32 fields located in the northern part of Samara Oblast.

Oil spill response exercises were held at the Ozeroye field in Tatarstan in connection with the preparations taken to dismantle the idle pipelines around the islands of the Nizhnekamskoye water storage basin, where the field is located. Those pipelines had been decommissioned long before OJSC RITEK obtained a license for the Ozeroye field. The objective behind removing the pipelines is to improve environmental protection level.



Key Operational Indicators

INDICATORS	2010	2011	2012	2013	2014
Production of raw hydrocarbons (LLC LUKOIL-PERM, OJSC RITEK's territorial subdivision TPP RITEK-Uraloil)					
Oil production, mln. tn	18.7	17.0	13.8	14.8	14.5
Production of natural and associated petroleum gas, mln. cu. m	1,695	1,596	1,197	1,032	969

Source: Company data.

Downstream



Development strategy of LUKOIL Group's refineries and petrochemical enterprises provides for increased production capacity and reconstruction of the existing facilities to achieve better refining depth figures, as well as implementing R&D results and new technologies to launch facilities for the manufacture of new products.

In the reporting period LLC LUKOIL-Permneftegazpererabotka constructed new facilities to treat APG and natural gas liquids (NGL), and a booster compressor station. It also upgraded its desulfurization unit. Upon completion of the project the volumes of the treated gas stock are expected to almost triple (560 to 1,460 million cubic meters per year), and those of liquid hydrocarbons to almost double (from 1,000 to 1,700 thousand tons per year). In 2013, a new operational unit – a feedstock depot with a total capacity of 2,400 cubic meters – was commissioned at the feedstock acceptance, storage, and shipment shop.

LLC LUKOIL-Permnefteorgsintez continues construction of its petroleum residue recycling unit (PRRU). It is due to be commissioned in late 2015, which will enable to completely terminate production of commercial furnace fuel oil, while increasing light product production, which is in line with the government policy. The oil refining depth in this case will reach 98%.

The project is regulated by the four-party agreement between OAO LUKOIL, Russian Federation Federal Antimonopoly Service, Russian Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor), and Russian Federal Agency on Technical Regulation and Metrology (Rostekhnregulirovaniye). Investments into the project will make up around RUR 30 billion.



The enterprise also has ongoing projects for the production of winter and arctic diesel fuels with sulfur concentrations below 10 ppm without the use of any depressor additives.

LLC LUKOIL-Nizhegorodnefteorgsintez commissioned state-of-the-art management systems for two of its primary oil distillation units which made it possible to increase the output of valuable products and improve their quality due to the process stability. Construction of the second catalytic cracking facility is coming to an end. This will significantly increase the output of light petroleum products. Reconstruction of the combined ramp has been completed, and 74 tank cars can now be simultaneously loaded with various products (petrol, diesel fuel, jet fuel). The ramp is protected from exposure to external effects and has a video surveillance system. This rules out a possibility of theft or underweight of products when they are shipped out to the consumer. A road bitumen packing unit has been commissioned. It packs bitumen into state-of-the-art, environmentally friendly containers called Big Bags that provide for a long storage period.

In 2014, the enterprise began producing a new commercial product, low-viscosity marine fuel that can be used by marine vessels or river fleet with high-rpm or mid-rpm diesel engines, and is utilized in gas-turbine units.

Since 2012, LLC Saratovorgsintez has been implementing its strategically important project for the expansion of its sodium cyanide production capacity to 30 thousand tons per year. This product is in demand among domestic consumers, in CIS member states and other countries.

Key Operational Indicators

INDICATORS	2010	2011	2012	2013	2014
Oil refining: LLC LUKOIL-Permnefteorgsintez, LLC LUKOIL-Nizhegorodnefteorgsintez, (cumulative figure)					
Raw stock refining volumes, mln. tn	29.7	30.0	29.2	29.7	30.0
Commercial output, mln. tn	28.8	28.8	27.8	28.3	28.8
Petrochemicals: LLC Saratovorgsintez					
Raw stock refining volumes, ths. tn	279.1	261.9	291.7	268.9	235.4
Commercial output, ths. tn	168.8	158.0	175.3	160.4	141.0
Gas processing: LLC LUKOIL-Permneftegazpererabotka					
APG and wet gas processing, mln. cu. m.	467.6	554.3	582.3	548.5	556.9
NGL processing, ths. tn	629.4	689.7	742.0	669.6	684.0

Source: Company data.

Marketing



The strategic objective of the region's petroleum products supply organizations is to improve quality of customer service at filling stations and reconstruct the filling stations recently purchased by the Company. Construction of new filling stations is underway.

In 2013, LLC LUKOIL-Volganefteprodukt filling station network was expanded by acquiring 11 Petrolink filling stations in the Republic of Mordovia. Two new filling stations were constructed in Nizhniy Novgorod Oblast in 2014. In 2013–2014, six oil depots were fitted out with new equipment, and tank overflow control systems were installed at 28 filling stations.

In 2013, the Mystery Client program was launched. As part of the program more than 80% of the filling stations undergo monthly inspections. In just a year the quality of customer service increased by 25% (from 59% to 84%). In addition to that, an audio recording system to record operators' conversations with the customers was installed at a number of filling stations in Nizhniy Novgorod to improve the quality of customer service. Plans for the future include fitting out all of the enterprise's filling stations with sound recording devices.

In the reporting period the range of products offered to the customers was expanded. For instance, Drug Store Outlet vending machines, and machines selling fresh flowers were installed. As part of the federal agreement with Nestle, coffee corners were arranged for customers. Now there are more filling stations offering food stuffs. New comfort areas were organized for customers.

New format filling stations opened in 2014. They have the equipment for baking fresh rolls and pastry which proved to be really popular among the customers.

An important event for Nizhniy Novgorod region's filling stations in 2015 was the launch of a project titled More than a just a Purchase initiated by the Our Future Regional Social Program Foundation whose key goal is to support local social entrepreneurship. Now filling stations offer goods made by disabled persons, mothers of many children and craftsmen of local arts and crafts crews. This way LUKOIL filling stations contribute to the development of entrepreneurship in the regions, while their customers help socially unprotected citizens to generate revenues from their labor.



As a result of innovations the sales proceeds from non-fuel goods at LLC LUKOIL-Volganefteprodukt filling stations saw an almost 50% increase in 2014 compared to 2013 figure.

The project aimed at converting filling stations into automatic ones is underway in LLC LUKOIL-Permnefteprodukt: 5 single-operator automatic filling stations were opened in the reporting period: 4 in Perm Krai and 1 in Kirov. In 2014, a new project was implemented:

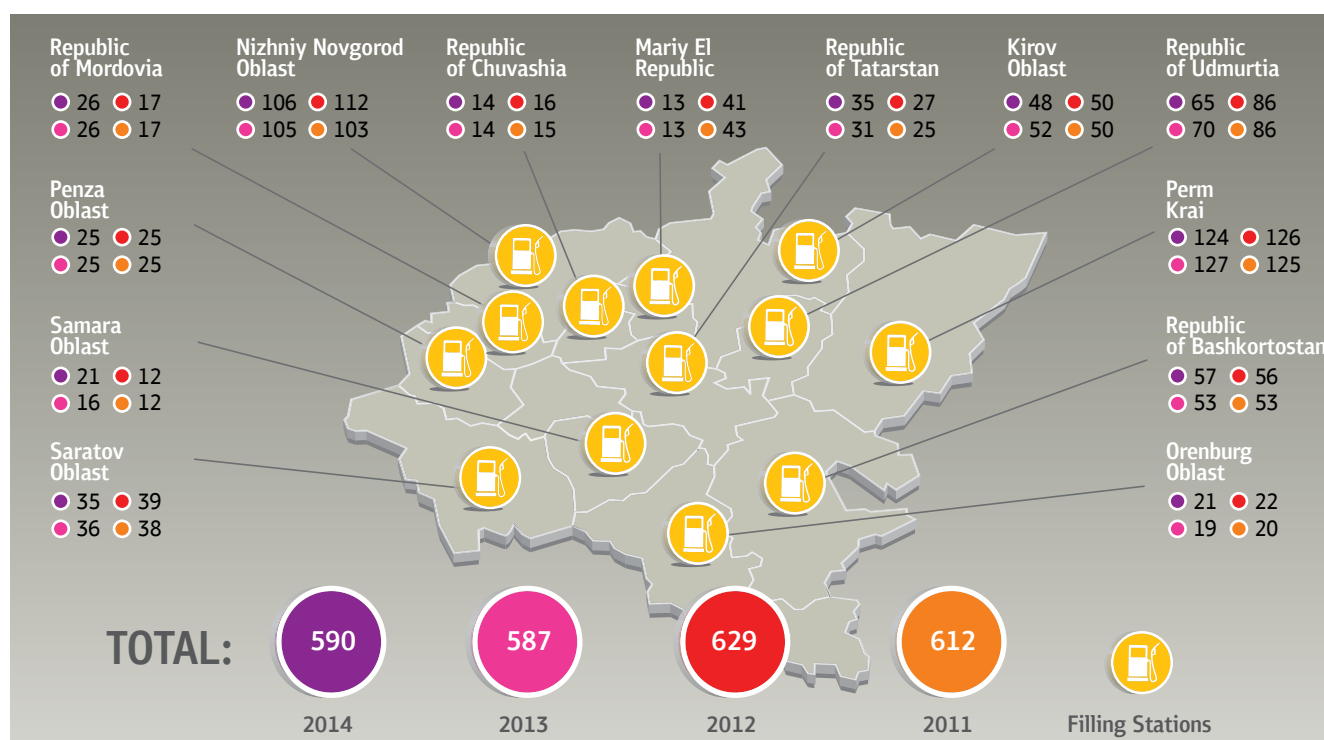
converting one Perm station into a multioperator automatic filling station. As part of the Mystery Client program the number of systematic inspections conducted at filling stations increased. In the course of such inspections the quality of fuel and customer service was evaluated. For instance, in 2013 there were 1,920 inspections: following their results the percentage of cases with sub-standard fuel fell down to as low as 0.3%, and it was noted that the customer service culture improved significantly.

Key Operational Indicators

OIL TRANSSHIPMENT	UNITS OF MEASUREMENT	2012	2013	2014
LLC LUKOIL-Kambarskaya Bulk Plant	mln. tn	2.9	1.2	1.3

Source: Company data.

PRESENCE OF LUKOIL'S FILLING STATIONS IN THE REGIONS



Source: Company data.

ENVIRONMENTAL PROTECTION

Major developments as part of the 2014–2018 Environmental Safety Program in Volga Federal Okrug are represented by construction of APG utilization facilities, repair and replacement of pipelines at oil and gas production enterprises, upgrading and construction of the facilities for off-gas treatment, vapor recovery and recuperation, treatment of wastewater at oil refining and marketing enterprises. The total funding for such activities in Volga Federal Okrug will be more than RUB 32.5 billion. Other items on the Program agenda include rehabilitation of disturbed and contaminated land, implementing automated industrial environmental control systems.

Clean Air in the Cities

Given the fact that the Company's filling stations and bulk plants are located within city boundaries or in close vicinity to the cities, the enterprises take measures to reduce the environmental impact. In the reporting period seven LLC LUKOIL-Volganefteprodukt filling stations installed vapor recovery and recuperation systems for their fuel tanks. This is the enterprise's proprietary technology for which it has received a utility patent (a total of 17 filling stations have such systems). In addition, patents were obtained for the inventions titled Oily Waste Recycling Apparatus and Oily Waste Recycling Disintegrator. In 2013, as part of the Cooperation Agreement

between LLC LUKOIL-Volganefteprodukt and Nizhniy Novgorod State Technical University named after R.E. Alexeyev a concept of the oily waste recycling apparatus was created, and positive results recorded.

Industrial environmental control of air at filling stations is conducted by the in-house mobile environmental lab, while the soil and surface waste water are inspected by certified contractors.

Clean Land

Technical re-equipment of the stormwater drainage system and treatment facilities is underway at Sergach Bulk Plant (Nizhniy Novgorod Oblast) as well as at a number of filling stations (mostly in Nizhniy Novgorod Oblast).

Significant funds were invested into rehabilitation of disturbed land near the Kambarskaya Bulk Plant (Republic of Udmurtia) that is due to be completed by year-end 2015.

LLC LUKOIL-PERMNEFTEORGSINTEZ COMPLETED CONSTRUCTION OF AN OILY WASTE (OW) RECYCLING FACILITY

The facility includes a few process-based systems, and was constructed on a stage-by-stage basis. Stage one (recycling liquid OW) was commissioned in 2009: it includes a system for extraction, treatment and phase separation of the oil sludge from the ponds to flotation and oil sludge recycling system from MHO VEMKO mechanical and chemical treatment facility. Stage two (recycling solid OW) was commissioned in 2014: it includes a system for drying of dehydrated activated sludge, thermal desorption, and a briquetting system. Each of them has its in-house local automation and control system. The data are transmitted to the operator station.

The capacity of the liquid waste recycling facility is up to 110 thousand tons per year, while that for solid waste recycling is up to 15 thousand tons per year. The facility can recycle all OW generated by the enterprise.



Specially Protected Areas

LLC LUKOIL-PERM produces oil at the fields that encompass natural areas of special protection (regional level): protected terrains include Kuedinskiy (the Aptugayskoye field), Sarashevskaya Oak Grove (Batyrbayskoye field), Nizhnevisherskiy (the Logovskoye, Ozeroye, Gagarinskoye, Magovskoye fields), Bereznikovskiy biological hunting wildlife reserve (the Shershnevskoye field), etc.

According to the applicable law, during the entire operation period of oil fields, comprehensive environmental monitoring of the condition of the key natural components must be conducted.

Comprehensive environmental monitoring is conducted with respect to the condition of the key natural components (air, surface and ground water, soil). The surveys suggest that the content of chlorides and petroleum products in the soil is within the background values for Perm Krai. Variability analysis of the most vulnerable plant species demonstrated that they preserve their role in the ecosystem, maintain a steady level of biodiversity, and the ecosystems are sustainable.



LLC LUKOIL-PERM is actively involved in cooperation on these matters with Perm Krai's Ministry of Natural Resources, Forestry and Environment. Thus, in 2014, the ministry initiated an event dedicated to the cleaning of the Kvarkush protected terrain, a natural area of special protection of regional importance in Perm Krai, of the litter left by tourists. LLC LUKOIL-PERM provided transportation vehicles to take people to the area for this event and to remove the collected litter from the area. In September 2014, a delegation of scientists, representatives of the community and governmental authorities of Lower Saxony (Germany) visited Perm Krai on invitation of the ministry. The goal of the visit was to consider the prospects of creating the first natural park in the Kama area and conduct an expert review on preserving the biodiversity and management of the areas of special protection. The experts visited Nyukhti Lake that is of special natural value and is located in the central part of the Nizhnevisherskiy protected terrain, within the boundaries of the Ozeroye field. German professionals praised the quality of surface oil field production facilities near Nyukhti Lake.

Biodiversity preservation

LLC LUKOIL-PERM provides funding for artificial reproduction of populations of valuable fish species recommended by the Perm branch of the Federal Governmental Budget-Funded Scientific Institution titled The National Scientific Research Institute of Lake and River Fishery. In 2014, the Company signed agreements with some of Volga Federal Okrug's best specialized fishery enterprises of Perm Krai. As a result, 263.8 thousand young sterlet, 265.4 thousand young pike, and 156.4 thousand young pikeperch fishes were released into the Kama water bodies. The total expenditures came to RUB 29.6 million. One of the fish planting events at the Kamskoye water storage basin was included into the field meeting agenda for heads of OAO LUKOIL's environmental services, which helped disseminate and share the useful project experience. Professionals from Russian and foreign subsidiaries released young sterlet fishes into the Kamskoye water storage basin from the embankment of the Kokhlovka museum.

SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

As part of execution of the Agreement with Perm Krai Government LUKOIL's enterprises located in the Kama region invested RUB 1.32 billion into social programs in 2014 and RUB 1.3 billion in 2013.

The funds were used to construct kindergartens in the Big Usa village of Kuyeda district, Ust-Turka village of Kungur district, Schuchye Lake village of Oktyabrsk district, Asinskiy settlement of Chernushka district, to conduct capital repairs of schools at Big Talmaz village of Kueda district and Sars settlement of Oktyabrsk district, to construct gas pipelines and reconstruct boiler houses in Kueda, Chastye, and Solikamsk districts, and to conduct water supply system repairs in Osa, etc. A kindergarten was commissioned in the Chastye village. The Chernushka River basin was opened, construction of a sporting and healthcare facility is underway in the Barda village and a covered skating rink with ice surface in the town of Chaykovskiy. Four modular rural community centers were constructed: in Barsai village of Uinskoye district, Bedryazh village of Chernushka district, Ishimovo village of Oktyabrsk district, and Oshya village of Kueda district. Twenty-one modular neighborhood primary health centers were commissioned in 17 municipal districts. Triumphant Spiridon's Cathedral was constructed and sanctified in the town of Chernushka. Construction of cathedrals is underway in the towns of Berezniki, Krasnovishersk, Perm, and the Oktyabrskiy settlement.

In addition, as part of LLC LUKOIL-PERM's charitable assistance, in 2014 a leisure and creative work facility was reconstructed in Polazna, improvements were performed in the Oilers' Park in the town of Osa and at the central square of the Chernushka town, while ambulance cars were purchased for 10 Perm Krai districts, and a Technology Class was created at the Askino secondary school, etc.

LLC LUKOIL-PERM is involved in the development of vocational education system. The krai-level polytechnic college in Chernushka was the first institution in Perm Krai to introduce a dual education model¹. With LUKOIL's assistance a hands-on Polygon training ground was constructed within the college's area imitating an oil field with four wells and the necessary equipment.

Also, as part of the Agreement, and according to the Program for Social Facilities Funding in Perm Krai, the following district events receive the Company's support: Savior of the Honey Feast Day (Usinskoye village), Savior of the Bread Feast Day (Oktyabrskiy settlement), Elovsk Fish (Yelovo village), and eleventh Selenite Jewel Box open district children's folk crafts festival.

As part of the Cooperation Memorandum between Perm Krai and OAO LUKOIL, assistance was provided in 2014 in holding the Second Congress of Komi-Permyak people and a Sabantuy krai-wide rural fest.

In 2013–2014, more than 130 social facilities were constructed, 32 kindergartens, 35 neighborhood primary health centers, 7 rural community centers, and a school were opened in Perm Krai.

One of the priority focus areas in cooperation between OAO LUKOIL and the Government of the Republic of Tatarstan is focused on supplying the products of Tatarstan's mechanical engineering and defense enterprises to LUKOIL. According to the Agreement, in 2013–2014 LUKOIL provided funding for the republic's social and charity projects totaling around RUB 449 million.



LUKOIL paid great attention to the programs targeting restoration of religious traditions and spiritual culture. This is why the Company's management agreed to take part in the construction of the Orthodox Christian high school named after saint lord and master Alexandr

¹ Dual education is a kind of occupational training whereby the practical part of the learning process takes place at the workplace, while theory is learned at the educational institution. The dual education system includes joint funding of the human resources training programs for specific workplaces provided by profit-making entities interested in the qualified personnel, and regional authorities interested in economic development and improvement of the region's living standards.

Nevskiy in Nizhniy Novgorod that opened on September 1, 2014. Students of the Orthodox Christian school will receive conventional secular education according to the governmental educational standards, and will also learn the basics of orthodox Christianity. Besides, the curriculum includes classes in Old Slavonic, Latin, and Greek languages.

“The idea to revive the Orthodox Christian school, our spiritual values, morals, and Orthodox Christian traditions is in great demand today. It is today that we must find ourselves, and our place for each adult, child and family. What we offer to teach at the Christian school is exactly what all orthodox Christians need today”.

Mikhail Babich, Plenipotentiary of the Russian President in Volga Federal Okrug

The Cooperation Agreement between the Company and the Government of Samara Oblast that will be in effect until the year-end 2018 provides for implementation of long-term programs on geological surveys and replenishment of the mineral base, as well as for the development of the oil and gas production and petroleum products supply in the region. Supplementary agreement to the underlying document, in particular, specified that in 2014 LUKOIL's enterprises would produce at least 2.8 million tons of oil in Samara Oblast. LUKOIL will also take part in the elaboration of joint programs on oil sludge refining and eliminating oil and petroleum product spills at oil production and hydrocarbon transportation locations, and will conduct radiological monitoring to ensure environmental safety and conservation in Samara Oblast. The Company will also be involved in social, sports and cultural projects, in particular, will provide financial help to the Assistance regional charity fund.

As part of the Cooperation Agreement with the Government of Saratov Oblast signed in 2012, OAO LUKOIL and the Our Future Foundation of Regional Social Programs implemented the Social Investments Program to construct the Tsvetik-Semitsvetik kindergarten in Saratov for 300 children. The total project cost is RUB 270 million. In 2014, the kindergarten was donated to the city. In 2014, based on the assessment of Russia's top 100 preschool educational institutions, Russian National Rating, Tsvetik-Semitsvetik was recognized one of the best preschool institution in Russia¹.



WE CARE FOR THE FUTURE GENERATION

The kindergarten constructed with LUKOIL assistance was recognized one of Russia's best preschool institutions.

The new kindergarten with the total area of 2,275 square meters for 15 groups consists of two buildings connected by a warm passage. The building was made of innovation materials, has state-of-the-art equipment, while the building's exterior and interior colors were selected so as to minimize the stress on eyes. Each component is well thought-out and developed with the care for children.

The insides of the building are designed and equipped to ensure increased functionality. The kindergarten has a swimming pool, planetarium with a package of training videos (currently, the only one in Russia), a road traffic regulations learning class, a computer lab, a fine arts studio, an assembly hall, a choreography class, a gym, a fitness room, museum of Russian traditions to study the history of Saratov Krai and Russia, and a hall of military fame. The kindergarten has all the necessary teaching aids, children's and methodical material for the learning process. There are two medical units in the kindergarten: one of them contains an isolation ward of two rooms, while the other one hosts an ophthalmologic room fitted out with state-of-the-art equipment. A cutting-edge air disinfection system is used to maintain a healthy climate and prevent virus diseases.

¹ "Russia's top 100 preschool educational institutions" contest was held in November 2014 as part of the Russian National Preschool Education Forum titled "Future Outlook. Challenges and Prospects of Preschool Education in Russia", for more details please visit <http://edforum.ru/top1415>.

Structure of Charity Expenses



SOCIAL AND CULTURAL PROJECTS CONTEST

In 2013–2014 next stages of the Social and Cultural Projects Contest were held in six regions of Volga Federal Okrug (*see table below*).

The winning projects include those dedicated to:

- landscaping and increasing attractiveness for tourists;
- development of partnerships between the entities with operations in the same region or in adjacent districts;

- development of social services for the population, including those for physically and mentally challenged people, children and other groups traditionally supported by the Company.

In 2013, proclaimed the Year of Environmental Protection in Russia, special attention was paid to the projects in the Environment nomination. The year of 2014 was announced the Year of Culture, and a new nomination entitled Culture Routes was introduced in Perm Krai.

Results of the Social and Cultural Projects Contest

Contest operator	2013		2014		Regions of project implementation
	Number of projects submitted for the contest	Number of winning projects	Number of projects submitted for the contest	Number of winning projects	
LLC LUKOIL-PERM	1,099	186	1,033	144	Perm city, Berezniki town, Alexandrovsk, Barda, Vereschagino, Dobryanka, Yelovo, Ilyinskiy, Kishert, Krasnovishersk, krasnokamsk, Kungur, Kueda, Ocityabrsk, Orda, Osa, Perm, Siva, Solikamsk, Suksun, Uinskoye, Usolye, Chaykovskiy, Chastye, Cherden, Chernushka, Chusovoy, Yusva districts of Perm Krai, and Tatyshly district of the Republic of Bashkortostan
LLC LUKOIL-Volganefteprodukt	264	78	361	65	Nizhny Novgorod Oblast, Vologda Oblast, Vladimir Oblast, Republic of Mariy El, Republic of Mordovia, Republic of Chuvashia
OJSC RITEK	616	138	770	148	Republic of Tatarstan

Examples of projects financed

Culture. The Land of Saint Tryphon (Perm Krai)

The project resulted in creation of an ethno-cultural facility titled The Land of Saint Tryphon, a historical monument and symbol of the Great Permian Orthodox Christian culture. In the course of the project a group of volunteers represented by young employees of LUKOIL's

Permian enterprises restored the historical look of Saint Trinity Cathedral. The Tryphon's desert was landscaped, a baptismal font and a well with saint water were constructed.

Culture. Boldino Autumn (Nizhniy Novgorod Oblast)

The project has been supported by LUKOIL since 2008. One of its key goals is to promote culture and high moral standards among the youth



by holding extra-curricular non-learning events, in particular, Pushkin Festival. In 2013, more than 500 people (students, post-graduate students and teachers of six local high educational institutions of different specialization, as well as local population of Bolshoye Boldino district and representative of local authorities) took part in the festival. Over the years of project implementation, the festival gained a status of a national event in Russia.



Culture, Wonderful Theater Invites (Dobryanka town, Perm Krai)

The local puppet show that has already been staging performances for 47 years, finally received its premises. Since the commencement of the project more than 2,000 children had visited the performances. The theater is also unique because at the same time it hosts a puppet museum where creative classes at CHUCHElka puppet studio and Think-Do-Play master classes are held for more than 900 children.



Environment and Culture. Ethnographic Park of the Chusovaya River history (Chusovoy district of Perm Krai)

As part of the project to lay out an Ethnographic Park of the Chusovaya River History (an outdoor museum) the only artificial water body was restored: a water boosting pipeline was constructed from the Arkhipovka River with a waterfall effect, and a drainage system to drain the pond for the winter was arranged, a fountain was installed, the banks were reinforced with rubble stone, and pavement pathways were filled in.

Environment and Culture. This Land is for us to Live on (Novosheshminsk municipal district of the Republic of Tatarstan)

The project helped transform the municipal district's central library into a community center for the local residents: great recreational facilities for children and adults were provided, environmental education

and cultural events are held there. The project included landscaping and reconstruction of the facade, installation of game and sports equipment, conditions for psychological relaxation were created.

Environment. Perm – Workshop of the Future (Perm Krai)

Every year an open contest of school environmental projects entitled Perm – Workshop of the Future is held in Perm's Industrial District. It was initiated by LLC LUKOIL-Permnefteorgsintez management. The key goal of this contest is to involve the children and teenagers in finding solutions to environmental problems, and to develop a pro-active attitude. Over the eight years more than 550 projects joined the contest. The best of them received grants. Active participants of the contest participate in scientific expeditions to the protected areas of the Kama region and clean contaminated water bodies, do landscaping for schools and kindergartens, take part in volunteer clean-up events and environmental contests, festivals of environmental fashion and excursions to their district's places of interests. As part of the Leader's School contest environmental children's camp is organized, as well as research-to-practice conferences with the involvement of krai environmental administration officers and ecologists, and round table meetings of project managers.

Environment. AntiSWINE (Nizhniy Novgorod Oblast)

AntiSWINE is an annual partnership project that does not only unite city volunteers, but also employees of a number of companies with operations in Nizhniy Novgorod region: OJSC Teploenergo, Tele2, and journalists of Moscow Comсомоlets newspaper. In 2013, more than 700 people were involved in the project. They held four events dedicated to the collection of waste in the city (along the Volga embankment, at the Rowing Channel, at Silicate Lake and Sortirovochnoye Lake, as well as in the Dubki park). A further two events (at the Oka embankment and at Lunskeye Lake) were initiated by the citizens themselves. Those were organized at their own cost. As a result about 40 tons of waste was taken out of the city, master classes were delivered where participants were familiarized with useful waste utilization techniques.



Youth. Formula Student (Nizhniy Novgorod Oblast)

The Formula Student project is the most technologically advanced socially important project supported by LUKOIL. The Company's support helped young engineers of students' design office Formula Student of

R.E. Alexeyev Nizhny Novgorod State Technical University to present their car for the first time at Formula SAE world championships hosted in Italy in 2013. The competition demonstrated the car's great potential and ability of the NNSTU students to tackle complicated engineering problems. The Nizhny Novgorod team was the only team to make it to the final out of seven Russian teams that joined the competition.

In 2014, students of the polytechnic university supported by LUKOIL-Volganefteprodukt created a solar powered vessel. They claimed the top spot with their Silver Arrow trimaran at the Russian national competition entitled Solar Regatta in the class of solar powered small size vessels with under 1 kW electric engine.

Youth. Time for Positive Thinking (Nizhny Novgorod Oblast, Moscow Oblast, Mariy El Republic)

For several consecutive years, the Practice Center of Nizhny Novgorod has been declared winner of the contest. Starting out as a series of small seminars for the youth on modern TV journalism, the project grew to become interregional and expanded in terms of its content. Now the youth do not only learn professional secrets in this field as part of the project, but also get involved in the professional TV production process. This time eight TV stories were created about young people who choose to be pro-active in their lives and act to improve the life that surrounds them. The project is dedicated to the Year of Culture in Russia, its characters are doing their best to add some beauty and creative innovations into different aspects of life, including urban environment, sports and fitness, creative arts, etc.

Social Events

The Company's enterprises in Kirov Oblast and Perm Krai also host social events.

Vyatka Business Management Cup is a socio-charitable event that was held jointly with the institution of higher professional education Russian Academy of Economy and Public Service of Kirov Oblast as part of the regional stage of the national championships in strategy and business management titled Global Management Challenge.

The goal of the event is to develop the region's talent pool and determine the best young professionals in Kirov Oblast, improve business and investment climate, and create a positive entrepreneur image. The teams that joined the competition received virtual companies for management with the same starting performance indicators, developed strategies and a package of managerial decisions in the field of marketing, manufacturing operations, HR, finance, and logistics to ensure the best investment appeal for their companies as compared to their "competitors".

Warmth of Our Hands is a trade fair of hand-made articles manufactured by LLC LUKOIL-Permnefteprodukt employees and their families that has already become a tradition. A series of activities dedicated to care for the elderly living in retirement homes was launched back in 2012. The funds collected are allocated to retirement homes in the regions of LLC LUKOIL-Permnefteprodukt's presence: Berezovskiy and Pereborskiy retirement and disabled people care





homes (Perm Krai), Kirov retirement and disabled people care home, Ordzhonikidze retired and disabled people care home (Yekaterinburg). This way the enterprise employees pursue the same social priorities in their lives as those being part of the Company's corporate culture.

Helping New Drivers. To improve the skills of new drivers LLC LUKOIL-Permnefteprodukt has joint projects with driving schools: a motor driver's handbook and a training film in the form of a presentation were issued to be used at the lectures to help the students understand fuel types and properties. Driving school cars gain access to filling stations to teach future drivers how to fill up their tanks. Also, there is an annual event titled Always moving forward representing an opportunity for the customers to save on purchasing fuels and receive prizes (every year the enterprise has prizes for 40 winners).

AWARDS OF LUKOIL GROUP ENTERPRISES

In 2013, LLC LUKOIL-PERM received the following awards evidencing public recognition:

- winner of the Best Russian Human Resources Service – 2013 Russian National contest in the nomination Leader of Socially Responsible Business in HR Management – for the seventh time;
- winner of the Leaders of Russian Business: Performance and Responsibility – 2013 Russian National contest in the special nomination For Talent Pool Development;
- winner of the Leaders of Russian Business: Performance and Responsibility – 2014 Russian National contest in the special nomination For Environmental Responsibility;
- award of the Perm Krai Ministry of Natural Resources, Forestry and Environment for successful launch of alternative energy facilities.

In 2013, LLC LUKOIL-Permnefteorgsintez was awarded by the Perm Krai Ministry of Natural Resources, Forestry and Environment for the best efforts in construction / reconstruction of waste water treatment facilities over the last 5 years. In 2014, the enterprise was awarded

a Letter of Gratitude by the Perm Krai Ministry of Natural Resources, Forestry and Environment for its active involvement in the regional stage of the 21st Event Days of Environmental Protection in Perm Krai and organization of events under the auspices of the Year of Environmental Culture in Perm Krai.

As part of its participation in the Russian National Environmental Community Work Day Green Russia – 2014, LLC LUKOIL-Permnefteorgsintez became a prize winner in three nominations.

OJSC RITEK received the highest award of the Best Exhibit, Best Project and Best Engineering Solution contest held in Kazan as part of the Tatarstan Oil, Gas and Chemical Forum in 2013. The Company was awarded in the Oil Production Stimulation nomination for the development and implementation of the engineering and process system aimed at sustainable utilization of the associated petroleum gas to enhance oil recovery.

OJSC RITEK's technology was recognized as the best in the Oil Production Stimulation nomination as part of the industry award entitled OFS Awards – 2014 established by Russian Petroleum Investor. The engineering and process system developed and implemented by RITEK's engineers is designed for oil production stimulation through injection of fine-dispersed water-gas mixture into the reservoir.

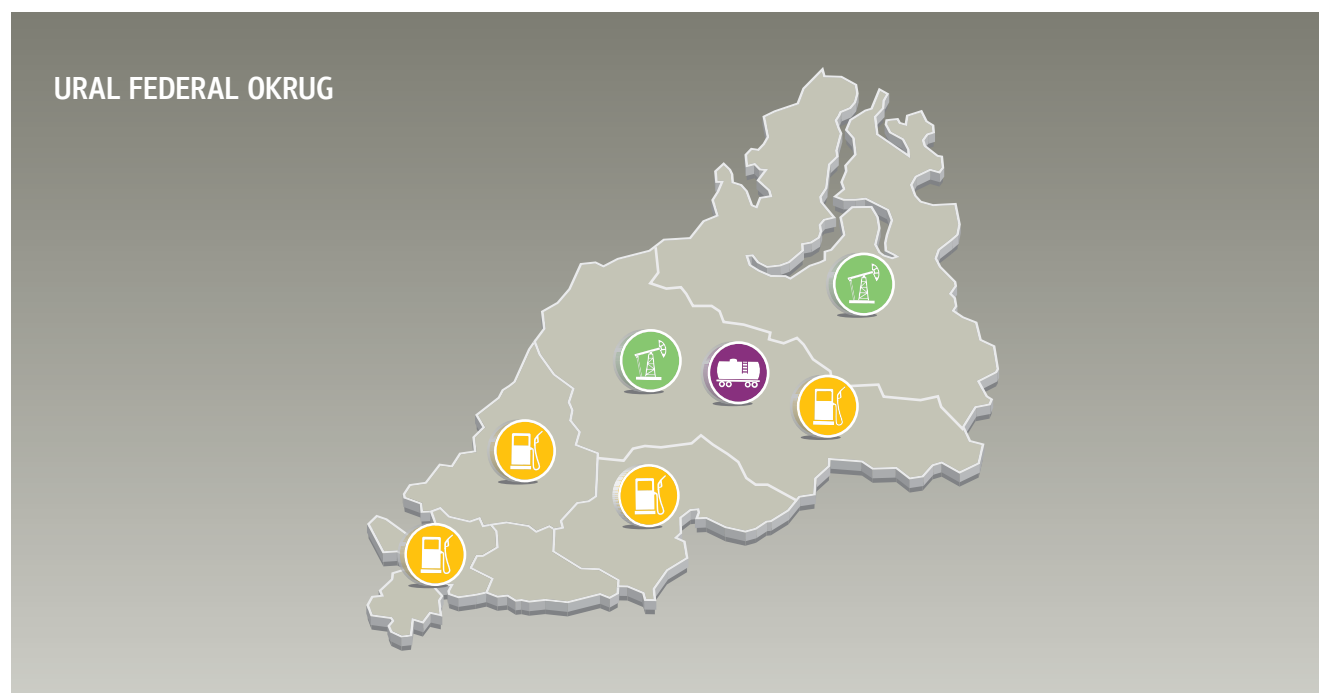
LLC LUKOIL-Volganefteprodukt was awarded two diplomas of the Dobryi Nizhny festival, won at Nizhny Novgorod Phoenix – 2013, the second regional volunteering and charity contest in the Goodwill Company nomination. The enterprise was also acknowledged as the best in the Regional Awards for Information Disclosure entitled Newsmaker of 2014 in the Energy and Resources nomination.

Following the results of the fuel inspection conducted by the Nizhny Novgorod Department of the Russian National Society for Environmental Protection, five filling stations received quality certificates as part of the project entitled Clean Fuel – Clean City. These were filling stations No. 9, 20, 21, 28, 48, and 187 of Nizhny Novgorod Oblast.

LLC LUKOIL-Permnefteprodukt received environmental quality certificates issued by the Russian National Society for Environmental Protection following the inspections as part of the Clean Fuel – Clean City event.

In 2014, LLC Saratovorgsintez took two first prizes at the Oblast-wide contest entitled Collective Bargaining Agreement – the Groundwork for the Protection of Citizens' Social and Labor Rights in the Best Collective Bargaining Agreement in Material Production nomination in over 500 employees category, and in the Best Collective Bargaining Agreement for Working Mothers nomination. The enterprise was also awarded the Exporter of the Year certificate for the top place (gold) in Russia's top 50 exporters in the Organic Acids foreign trade activity. LLC Saratovorgsintez also became winner of the second annual Oblast-wide contest entitled Success of Year 2014.

Sverdlovsk, Tyumen, Chelyabinsk Oblasts, Khanty-Mansi Autonomous Okrug – Yugra, Yamalo-Nenets Autonomous Okrug



UPSTREAM

LLC LUKOIL-West Siberia

OJSC RITEK (TPP RITEK-Beloyarskneft, TPP RITEK-Nadymneft¹,
TPP RITEK-Kogalymneft²)



DOWNSTREAM

LLC LUKOIL-Uralnefteprodukt

LLC LUKOIL-Permnefteprodukt

LLC LUKOIL-Severo-Zapadnefteprodukt



MIDSTREAM

Perm Transport Hub of LLC LUKOIL-Trans (railway transportation
shop in Langepas)

ECONOMIC ROLE AND INVESTMENTS

LUKOIL Group's strategic focus area in the region is stability of hydrocarbon production, including through development of hard-to-recover hydrocarbon reserves with the use of cutting-edge technologies. LUKOIL Group's main oil production enterprise

LLC LUKOIL-West Siberia operates in this region. The subsidiary's 2013–2015 exploration program provides for active seismic surveys as well as drilling wildcats and exploratory wells within the license blocks.

Key Financial Indicators

INDICATORS	2013	2014
Total taxes paid*, RUB mln., including:		
to the Russian federal budget	303,881	271,237
to budgets of the Russian subjects	283,249	253,383
to the local budgets (cumulative figure)	20,625	17,847
Investments, RUB mln	6	7
	114,780	98,103

* The foregoing data is provided for the reporting period only, as the investment calculation methods were updated in 2013, and the methods used for calculation of paid taxes were modified in 2013 due to the introduction of the consolidated taxpayer group concept.

Source: Company data.

¹ On July 1, 2014, TPP RITEK-Nadymneft was merged under TPP RITEK-Beloyarskneft.

² TPP RITEK-Kogalymneft was integrated into LLC LUKOIL-West Siberia in June 2013.



Upstream



LLC LUKOIL-West Siberia has operations in Tymen Oblast, Khanty-Mansi Autonomous Okrug – Yugra and Yamalo-Nenets Autonomous Okrug at 102 license blocks, which a total area is almost 60 thousand square meters (including 72 blocks with exploration and production operations underway). The resource base is replenished by new oil and gas field discoveries, as well as by new reservoirs at the existing fields. Following 2013–2014, geological exploration is replenished by 78%.

Another achievement in the reporting period was the production of first oil at the Imilorskoye field (KMAO – Yugra) with complex structure of the accumulations. The Company accelerated its additional exploration, field construction, and production drilling operations. In October 2014, the first so-called early oil, was produced. Following the results of the year, oil production output came to 49 thousand tons.

“What LUKOIL did at the Imilorsko-Istochnyi license block in just a few months of development operations, inspires deep respect and pride. This makes us confident that we will be able to ensure stable oil production in the years to come. The launch of operations at one of West Siberia’s largest fields is a confirmation of professionalism of LUKOIL’s people and high level of technology utilized by the national oil industry.”

*Deputy Chairman of the Russian Federation Government
Arkadiy Dvorkovich*



OJSC RITEK’s major investment project is pilot development of the V. Vinogradov field (KMAO – Yugra). A 45km interfield oil pipeline was commissioned here which helped minimize the transportation costs of oil that used to be transported by tank trucks, and improved environmental safety.

Hard-To-Recover Reserves

The Company believes that oil recovery from the Bazhenov suite is a promising area to focus on in the Russian oil production industry. OJSC RITEK continues pilot operations at the Sredne-Nazymkoye field (KMAO – Yugra). They completed construction of the second block for thermal-gas reservoir treatment. It is expected that successful pilot operations will help significantly improve the oil recovery factor (up to 30-40%). An innovation technology for preparation and injection into reservoir of fine dispersed water-gas mixture was first successfully utilized at the Sandibinskoye field (KMAO – Yugra). OJSC RITEK’s development helped enhance oil recovery and discontinue the use of expensive compressors and a special system to prepare APG for compressing.

Gas Production



Gas program development is still underway. The total natural gas reserves of the Bolshekhetskaya Depression field came to 953 billion cubic meters as of the beginning of 2014. The production output since the beginning of the field development operations made up 64.2 billion cubic meters. The Nakhodkinskoye field accounts for one half of the gas production output (including APG). In 2014, as part of the investment program, construction operations were completed and the first 8.4 billion cubic meters per year start-up complex for booster compression station was commissioned.

As a result of the activities as part of the second 2011–2013 APG Recycling (Utilization) Program now the region’s facilities process the APG received from five territorial production enterprises of LUKOIL-West Siberia (TPP Langepasneftegaz, TPP Urayneftegaz, TPP Kogalymneftegaz, TPP Povhneftegaz, and TPP Pokachevneftegaz). The APG is utilized as feedstock to generate electricity at nine in-house small energy power plants.

LUKOIL also invests into development of the gas transportation system. In 2013, the main compressor station was commissioned, and the compressor gas treatment unit was reconstructed at the Nakhodkinskoye field, which increased the useful APG utilization rate. The design of the units takes into account Yamal’s extreme weather conditions, besides, they are additionally fitted out with a metering assembly to measure consumption of the compressed gas, which helps to reduce feedstock losses.

LUKOIL cooperates with major Russian oil and gas companies operating in the region. As part of the Master Agreement for Strategic Partnership with OJSC Gazprom the companies jointly act to develop a gas supply system to deliver gas from the Bolshekhetskaya Depression. In 2013, they signed a new 10-year agreement. In addition to that, an agreement for joint gas transportation with OJSC Rosneft is in effect. Partnership projects contribute to better utilization of the produced resources.

Key Operational Indicators

INDICATORS	2010	2011	2012	2013	2014
Production of raw hydrocarbons (LLC LUKOIL-West Siberia and TPP RITEK-Beloyarskneft of OJSC RITEK)					
Oil production, mln. tn	46.8	48.2	49.2	49.1	50.9
Cumulative gas production, mln. cu. m.	3,349	3,294	3,428	3,062	3,492

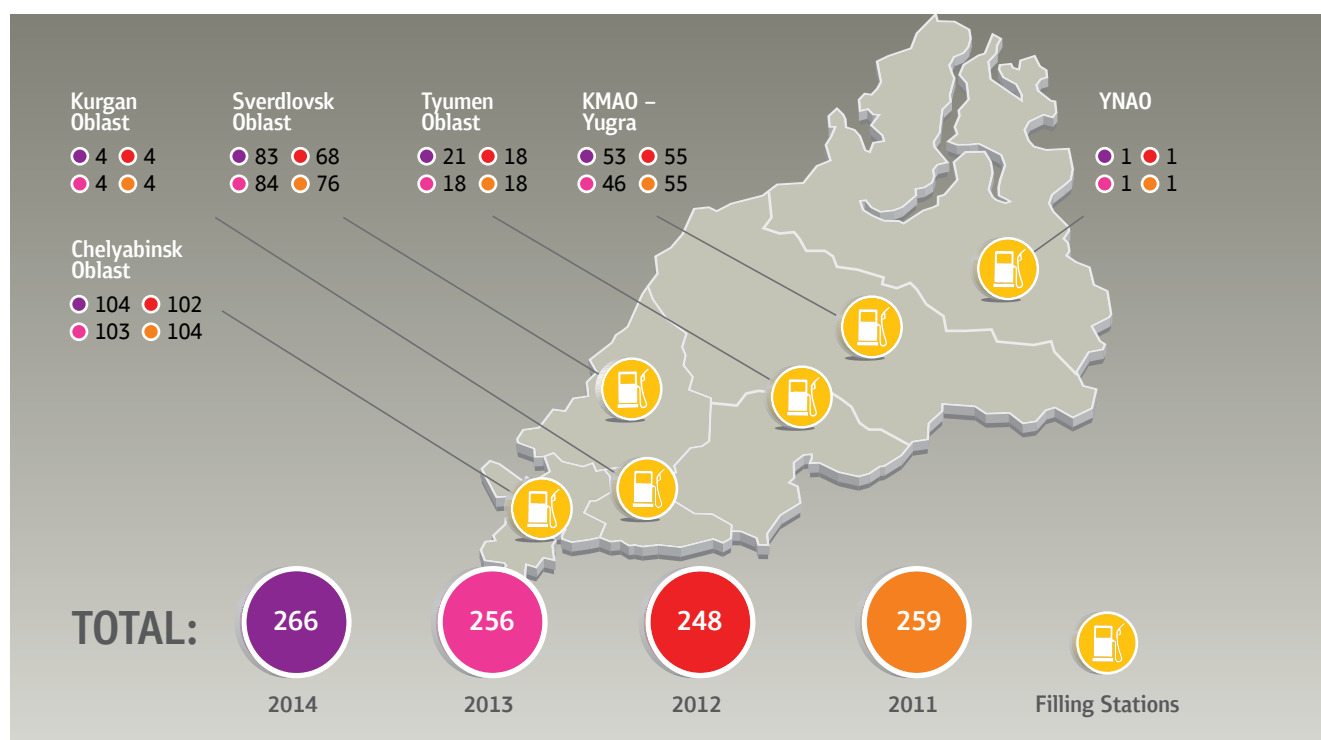
Source: Company data.

Petroleum Product Sales



Two LLC LUKOIL-Uralnefteprodukt's filling stations (No. 74002 and No. 74007) received environmental quality certificates issued by the Russian National Society for Environmental Protection.

PRESENCE OF LUKOIL'S FILLING STATIONS IN THE REGIONS



Source: Company data.

ENVIRONMENTAL PROTECTION

The most significant activities within the 2014–2018 Environmental Safety Program in the federal okrug include maintaining the APG utilization rate at no lower than 95%, construction of new waste disposal sites, rehabilitation of previously disturbed and oil contaminated land, and prevention of pipeline accidents. The funding for the above activities is expected to be more than RUB 54 billion.

One of the key focus areas in LLC LUKOIL-West Siberia's activities that is important for the region's environment is increased recycling output with regard to the waste generated by production operations. This figure is already getting close to the 100% target.

Currently there are eight sites for disposal of industrial waste and four sludge reservoirs at the fields. In 2013, an agreement was signed with LLC LUKOIL-Engineering to develop a drilling waste recycling technology that would help suspend waste burial and involve waste into production process.



As for the protection of water resources, the company was successful in the reduction of water consumption from natural sources, while at some facilities it has completely terminated the use of such water.

Regarding energy efficiency, structural subdivision TPP Pokachevneftegaz was one of the first ones in the country and in the Company's corporate structure to confirm compliance of its Energy Management System with ISO 50001:2011 (Energy management systems – Requirements and use manual). A pilot project for introduction of this system at the subdivision's facilities will enable reduction of energy and fuel consumption by RUB 10.7 billion in monetary terms within three years, with the required investments of RUB 6.2 billion, and will significantly reduce the environmental impact.

Increased attention is paid to the integrity of pipeline systems and oilfield equipment. Unique efficient technologies are implemented.

Environmental monitoring of air, surface water, bottom sediments, and soil is conducted at the license blocks according to the LLC LUKOIL-West Siberia Environmental Monitoring System and the Projects for a system of local environmental monitoring of license blocks approved by the Federal Budget-funded Institution Laboratory Analysis and Technical Measurements Center for Urals Federal Okrug and by the Environmental Administration of Yugra.

Samples of surface water undergo brief quantitative chemical analysis for content of oil and petroleum products, phenol, nitrates, phosphates, sulphates, chlorides, and other substances. Quantitative chemical analysis of air samples is conducted to determine the content of methane, carbon oxide, sulfur dioxide, nitrogen oxide and dioxide, suspended matter, and carbon black. The results suggest that the impact produced by the industrial facilities can be characterized as permissible and ensure compliance with the environmental quality norms.



LLC LUKOIL-West Siberia is actively conducting educational support to the youth improving their environmental awareness, which represents a foundation for the region's sustainable development. In 2014, two gatherings of school forestry units were held in Nyagan (14th district-wide gathering and 3rd gathering of the Federal Okrug)

which were joined by more than two hundred schoolchildren from 25 school forestry units of Sverdlovsk, Kurgan, Tyumen, and Chelyabinsk Oblasts, Yugra, and Yamal.

The Company also accepts invitations to participate in other organizations' environmental projects. For instance, every year its employees take part in community work days as part of the International Environmental Event entitled Save and Preserve that has been held in Yugra capital since 2010 with OAO LUKOIL's financial support. In addition, over the last years the Company has been allocating funds to facilitate arrangement and hosting of a TV festival in Khanty-Mansiysk named after the host city. In 2014, more than 300 films and programs joined the contest, and a round table was conducted, whose topic was Soil Ecology: Problems and Solutions.

Also, more than 500 representatives of LLC LUKOIL-West Siberia's administration office and its six territorial production enterprises took part in the Green Russia National Event held in 77 federation subjects. The Russian geographical society called this event "The Best Socio-Informational Project for the Preservation of Natural and Historical and Cultural Heritage".



LLC LUKOIL-West Siberia supports Yugra's sanctuaries and wildlife reserves, including sanctuaries Malaya Sosva and Yuganskiy, wildlife reserves Untorskiy and Sorumskiy, as well as the Kondin Lakes nature park. In the reporting period the Company allocated funds to purchase special-purpose machines and equipment to improve protection of the areas, and conduct scientific research and comprehensive environmental monitoring. The plan is to create environmental walking tracks, stop areas, and camps, implement environmental programs and events. For instance, an environmental education facility will be built at the bank of Saxontoglor Lake in the Yuganskiy sanctuary.

"We have been cooperating with LUKOIL for the third year now... With this additional financial support our team now has the opportunity to develop and tackle urgent issues.

Yevgeniy Strelnikov, Director of the Yuganskiy State Wildlife Sanctuary, Federal State Budget-Funded Institution

SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

As part of cooperation agreements between OAO LUKOIL and administrations of its areas of presence, various projects of public importance were implemented in the Federal Okrug, from installation of a monument to the People's Artist Alexandr Abdulov in Khanty-Mansiysk to improvement of education and healthcare systems.

One of the key focus areas in long-term cooperation is occupational and secondary education. According to the agreement with the Yugra government a multifunctional center of applied qualifications was created on the basis of Kogalym college that became the Okrug's main educational platform. One hundred and thirty-seven training, advanced training and retraining programs are offered at this college division, 18 training rooms, seven workshops and two labs were organized and fitted out with equipment. Now the college can quickly response to the needs of Kogalym enterprises and other areas of the Okrug by offering specialists that are in demand.

As part of the cooperation agreement between OAO LUKOIL and the government of Khanty-Mansi Autonomous Okrug – Ugra, with LLC LUKOIL-West Siberia's support, starting from 2014 a Diploma Program of the Success Formula International Bachelor Degree Course is now available at Kogalym school No. 8. In addition to the Russian diploma, the program graduates will receive an international diploma which will entitle them to enter any of the 1,300 institutes and universities in more than 130 countries. As part of the project the school's material and technical base was brought in compliance with the international standards, new technologies were adopted,

and specialized literature was provided to the school library.

Teachers attended training seminars and courses, including those that involve visits to other countries (Belgium, Switzerland, Czech Republic). The program expands opportunities for the youth and their career prospects.

Also, the Company provides funding for social projects in Yugra. Over as short a period as 2013–2014 dozens of buildings and structures were constructed, repaired and reconstructed in the Yugra settlements. Thus, construction of the third 16-storey block of flats and reconstruction of the polyclinic for 850 patients are closing to an end in Kogalym, a roller skiing track was constructed, traffic circles and transport junctions were made, construction of the Victory Park began in 2014 and was completed in 2015, a training site was built for the Kogalym polytechnic college. A fire department was constructed in Langepas, construction of Oilman water sports facility is now underway, and the capital repairs of the block of flats on 13 Lenin Street helped improve housing conditions for 91 families. A block of flats with 80 apartments was commissioned in Pokachi. Construction of another one with 42 more flats is now underway. A skiing lodge is currently being designed. An alley of the newlyweds was opened in Uray with the Petr and Fevronya sculptural composition, the amusement park was upgraded, construction of the biathlon center is closing to an end, roads were repaired, as well as intra-block passages, and grounds in the city districts. The Start Youth Sports School was reconstructed. Construction of the stadium is underway in the Sovetskiy settlement (Sovetskiy district), while in Gornopravdinsk (Khanty-Mansi district) sports facilities are being constructed. A kindergarten was opened in Lokosovo settlement (the Surgut district), the Museum of Nature and Humankind was constructed in Russinskaya village (Surgut district), and a school bus was bought for the children from the boarding school. Households of Mulymya settlement (Kondinskiy district) are being connected to a gas supply line. The town hospital in Beloyarskiy settlement (Beloyarskiy district) was repaired. Expensive medical equipment was purchased for the hospital. Also, the Company is involved in the construction of churches and mosques in the region, provides financial assistance for restoration of cathedrals.

Structure of Charity Expenses



SOCIAL AND CULTURAL PROJECTS CONTEST

The Success Strategy contest is held in KMAO – Yugra and in Tazovskiy district, and since 2009 in Salekhard (YNAO). In 2014, the tenth anniversary Social and Cultural Projects Contest took place in Yugra.

Over this period the contest was joined by 858 projects, of which 204 became winners and received a total funding of more than RUB 31 million. In 2014, 23 projects became contest winners with a total funding amount of RUB 4 million.

Results of the Social and Cultural Projects Contest

Contest operator	2013		2014		Regions of project implementation
	Number of projects submitted for the contest	Number of winning projects	Number of projects submitted for the contest	Number of winning projects	
LLC LUKOIL-West Siberia	87	26	95	23	KMAO – Yugra (Kogalym, Langeepas, Uray, Pokachi); YNAO (Salekhard, Tazovskiy district, Tazovskiy settlement)

Examples of projects financed

Social Services. Age is not a Problem (Tazovskiy settlement, YNAO)

As part of the Charity project for senior and disabled people's care home lectures were delivered, health improvement procedures organized, and leisure events held, including with involvement of the youth, and local municipal institutions of culture, education and sports. The project helps the elderly people overcome loneliness, live an active life, and remain interested in the surrounding world.

Another project in the same settlement was implemented by the local public organization Tasu Yava Women: a children's game room was created at the children's in-patient department of the district hospital, and costs on medical examination of the children from disadvantaged backgrounds at medical institutions of other towns were covered.



Culture. Handicraft all Around (Kogalym, Khanty-Mansi Autonomous Okrug – Yugra)

The project targets children familiarizing them with folk art, history and traditions of Kogalym, and promoting the history of the region's oil industry. Educational events and master classes were held at the Museum and Exhibition Hall (familiarization with manual pattern weaving, birch bark properties, specifics of Mezen and Gorodets

painting art, etc.). Granted funds were used to purchase a weaving loom and a potter's wheel. Apart from children, art teachers from secondary schools and children's art schools are also involved in the project, which helps improve the quality of the town's extracurricular education for children.



Children are Our Future: Science City in a Kindergarten (Langeepas, Khanty-Mansi Autonomous Okrug – Yugra)

A laboratory was created at the Rosinka kindergarten, where children will be taught to do research work. At an understandable level children will learn about various plants and animals, non-living world objects, properties of materials, and conduct their first experiments with fire, water, light, and color. The outcomes will be summarized at the young researchers conference.



INDIGENOUS MINORITIES



There are more than 30 areas in Yugra's districts of the enterprise's operations, where Khanty and Mansi people live in a traditional way.

LLC LUKOIL-West Siberia builds its relations with the indigenous people on the basis of clauses contained in its license agreements, cooperation agreements between OAO LUKOIL and the government of KMAO – Yugra, and YNAO, agreements for socio-economic development of the areas and locations compactly inhabited by the indigenous minor nations (IMN), as well as agreements with the legal subjects of the areas of traditional use of nature.

In 2014, two hundred and seventy-seven agreements with regional legal subjects of the areas of traditional use of nature representing a total of 979 people were in effect in Yugra.

The key interaction mechanism is represented by participation of LLC LUKOIL-West Siberia officials in regular meeting of the Coordination Council of "Saving Yugra" public organization where the points of cooperation are discussed and economic agreements are concluded.

The Company joined the governmental program of Khanty-Mansi Autonomous Okrug – Yugra entitled "2014–2020 Social and Economic Development of Indigenous Minorities of the North".

According the above listed documents, funding is provided for the projects with long-term benefits, and for current needs of the families and cooperatives. For instance, in 2014 a six-year project for reconstruction and construction of Car-Tokhi ethnic camp was completed in the Russkinskaya village. The camp is visited by about

50 children of indigenous inhabitants every day. The camp hosts children's study groups in fishery, hunting, and other national trades, provides practical training lessons to learn about the lifestyle and traditions of the Northern nations.

LLC LUKOIL-West Siberia has been systematically (supporting IMN) for the second decade already. Our involvement in this project is contribution to the preservation and development of the original culture of Yugra's indigenous inhabitants.

Serguey Kochkurov, OAO LUKOIL Vice President, General Director of LLC LUKOIL-West Siberia

For eight consecutive years, the Yugra International Festival of Indigenous People Trades has been held in Khanty-Mansi Autonomous Okrug under the auspices of the Russian Federation Commission for UNESCO activities supported by the Russian Ministry of Culture. In 2014, the festival was included into the Year of Culture program and became an event of the International Decade of the Indigenous Nations announced by the UN General Assembly.

Also, with support of LLC LUKOIL-West Siberia the first environmental folklore and stage adaptation festival was held in Kogalym. The name of the festival was Following the Descendants' Reindeer Moss Tracks and it was hosted by the museum and exhibition center. Twenty-five Khanty families of Surgut district took part in the contest.

Since 2010, as part of the Cooperation Agreement with the Government of Khanty-Mansi Autonomous Okrug – Yugra, every year LLC LUKOIL-West Siberia provides charity assistance to the Saving Yugra public organization of the indigenous minor nations of the North.



Another long-term project is purchasing reindeer food. In 2007, about 500 tons of specialized vitamin compound animal feeding stuff was purchased. It was produced by the Chelyabinsk grain production facility. As a result the population of reindeer kept by the families living in Yugra in LLC LUKOIL-West Siberia's area of presence increased up to 4,000 heads.



"When reindeer moss hides under the crust of ice, reindeer find it difficult to forage. We asked the oilers to buy the compound animal feeding stuff. The first and only to agree and help at that time (in 2007) were the oilers of LLC LUKOIL-West Siberia. Since then, they help us on a regular basis".

Stepan Kechimov, Chairman of Yugra Reindeer Breeders Union



Also, in the reporting period assistance was provided in holding international Yugra Governor's Cup competitions in oblast boat rowing and professional reindeer breeding as well as in implementing the interregional project entitled From Source to Mouth and to the North Line project of Yugra and Yamal public organizations. Free participation was organized for the indigenous people at the conference entitled Corporate Citizenship in Relations with the Indigenous Minor Nations of the Far North that took place in December 2014 at the Public Chamber of Russia. Such events do not only enlighten, but also help exercise the rights of the IMN of the North to cultural singularity and economic strength.

LLC LUKOIL-West Siberia helps the indigenous people who want to receive professional education by paying for their studies at higher and vocational institutions which for some is a possibility to get a job with the Company later on. In 2014, five representatives of the North indigenous minor nations were employed as oil and gas production operators. Simultaneously, they are studying to receive a diploma of higher education.

LUKOIL spends more than RUB 300 million every year to support the Yugra and Yamal indigenous nations (outside the scope of the cooperation agreements with the governments of autonomous okrugs).

PUBLIC RECOGNITION

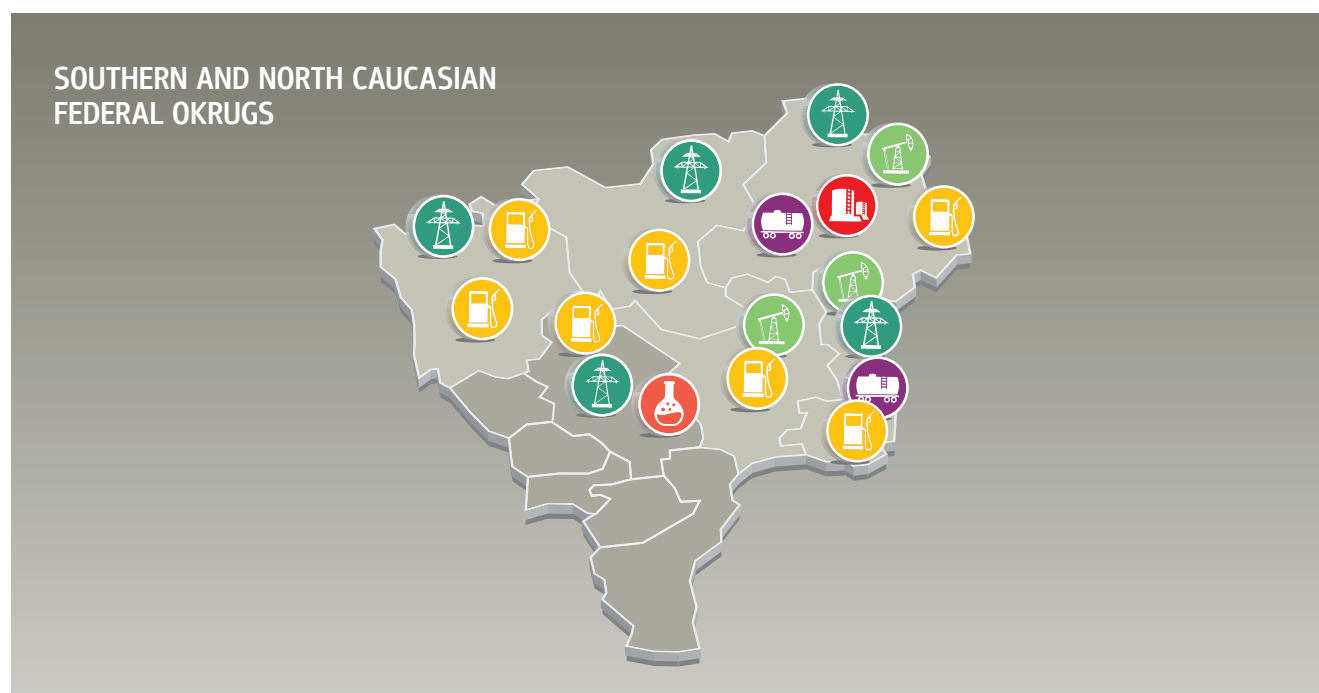
LLC LUKOIL-West Siberia was awarded:

- diploma of the Twelfth Save and Preserve International Environmental Event For Assistance in Promoting Environmental and Ecological Awareness;
- diploma of the district contest entitled Yugra's Black Gold for cooperation with the indigenous people of the region;
- diploma of the contest entitled Yugra's Black Gold in the Company of the year of Khanty-Mansi Autonomous Okrug – Yugra nomination.



SOUTHERN AND NORTH CAUCASIAN FEDERAL OKRUGS

Republic of Adygea, Republic of Kalmykia, Krasnodar and Stavropol Krajs, Astrakhan, Volgograd, and Rostov Oblasts



PRODUCTION

LLC LUKOIL-Nizhnevolzhskneft
OJSC RITEK (TPP Volgogradneftegaz)

DOWNSTREAM

LLC LUKOIL-Volgogradneftepererabotka
LLC LUKOIL-Korobkovskiy gas processing plant
LLC Stavrolen
LLC LUKOIL-Yugnefteprodukt
LLC LUKOIL-Nizhnevolzhsknefteprodukt

MIDSTREAM

LLC LUKOIL-Trans (TPU RPK Atrakhanskiy,
Volgograd TPU)

POWER ENGINEERING

LLC LUKOIL-Astrakhanenergo
LLC LUKOIL-Rostovenergo
LLC LUKOIL-Volgogradenergo
LLC LUKOIL-Kubanenergo
LLC LUKOIL-Ekoenergo
LLC LUKOIL-TTK (heat supply)
LLC LUKOIL-Energoseti
LLC Astrakhan Power Supply Company
LLC LUKOIL-Energoservice
LLC Modes Management Center
LLC LUKOIL-Energoengineering

ECONOMIC ROLE AND INVESTMENTS

LUKOIL's strategic approach for the region is comprehensive development and highest possible utilization of resources, including both basic resources and associated ones, produced in the northern Caspian regions. The Company's total investments into projects will be more than USD 20 billion.

Russian national scale investment projects are implemented in this region. Those are connected with the development of the Yu. Korchagin and the V. Filanovskiy fields in the Caspian Sea, as well as with construction of a major gas chemical plant in Budennovsk.

Key Economic Performance Indicators

INDICATORS	2013	2014
Total taxes paid*, RUB mln., including:	-2,783 ¹	-2,503
to the Russian federal budget	-14,515	-12,777
to budgets of the Russian subjects	11,546	10,129
to the local budgets (cumulative figure)	186	145
Investments, RUB mln	118,855	75,764

* The foregoing data is provided for the reporting period only, as the investment calculation methods were updated in 2013, and the methods used for calculation of paid taxes were modified in 2013 due to the introduction of the consolidated taxpayer group concept.

Source: Company data.

¹ Negative values are connected with tax privileges available for the enterprises.



Upstream



The key milestone in the reporting period is completion of offshore construction operations at the V. Filanovskiy field in November 2014: an ice resistant fixed platform was installed, from which oil will be drilled and produced. Besides, a central process platform, whose purpose is to prepare commercial oil, an accommodation module and a pipeline connection block which will export oil and gas to onshore terminals in Kalmykia, were installed. Construction of pipelines, power transmission lines and onshore oil collection facilities is now underway.

Well designs are now engineered by the Geological Exploration Technologies Center created in 2012 on the basis of LLC LUKOIL-Engineering subsidiary in partnership with Schlumberger. The software and hardware developed by the Center improves accuracy of the created reservoir models.

The oil produced at the field will be supplied to the transportation system operated by the Caspian pipeline consortium. The plan is to process the APG the at LLC Stavrolen's gas chemical facility currently under construction, and further utilize it at LUKOIL's power plants, as well as supply it to Gazprom's gas transportation system.

This is Russia's largest field discovered over the last 25 years. It is due to be commissioned in 2016.

As part of development of the integrated facilities at Northern Caspian fields the Company is planning to construct 25 platforms, lay more than 1.5 thousand kilometers of pipelines of which about 1 thousand kilometers will be under water. More than 550 kilometers of pipelines and onshore facilities will be built on land.

By the year-end 2014 the accumulated production of the Y.Korchagin field reached more than 4 million tons of oil. The plan is to further

increase oil and gas production. In 2013, the downhole treatment technology with the use of a foaming system to limit production of groundbreaking gas was also tested here. As a result additional 380 tons of oil were produced. In addition, for the first time during this project seven downhole treatment jobs were performed in horizontal wells that involved injection of fresh water and degassed oil to reduce groundbreaking gas production. This made it possible to increase oil production by 740 tons. During well drilling operations the newest technological developments are used at the field. Some of them, for instance, help close the gas burst intervals. The direct benefits from the use of technologies made up 7.5 tons of oil and 42 million cubic meters of gas.

"Lukoil's activities in the development of the Caspian offshore fields made it possible to increase utilization rate of the Astrakhan marine vessel construction facility by far. In this connection, the Company is putting great effort into training local professionals who can meet the industry's needs".

*Alexandr Zhilkin,
Governor of Astrakhan Oblast*

Industrial and environmental safety is LUKOIL's strategic priority in the region. Special attention is paid to offshore projects. In August 2014, Caspian-2014, international training exercises, were conducted. At one of the stages the participants blocked unauthorized access for an unidentified vessel to the marine platform and an attempt of illegal access by people thereto. At another stage, emergency response activities after the accident at an offshore platform were drilled, as well as response measures following a 1,500 ton oil spill. The results of the exercises once again demonstrated that LUKOIL has sufficient capabilities to eliminate consequences of oil spills in the course of its exploration and appraisal drilling as well as oil production operations in the Russian part of the Caspian Sea.



Key Operational Indicators

INDICATORS	2010	2011	2012	2013	2014
Production of raw hydrocarbons (LLC LUKOIL-Nizhnevolzhskneft, TPP Volgogradneftegaz of OJSC RITEK)					
Oil production, mln. tn	3.9	5.0	3.5	3.2	3.0
Production of natural and associated petroleum gas, mln. cu. m	496	402	412	393	378
Midstream: LLC LUKOIL-Trans (RPK-Astrakhanskiy)					
Oil transshipment, mln. tn	39	–	–	–	–

Source: Company data.

The Company has a constant dialog with all the stakeholders to ensure safety in the regions of field development. In October 2014, there was a round table meeting dedicated to the condition of ecosystems in the Lower Volga and Northern Caspian regions. It was attended by the Russian State Duma deputies, as well as a representative of the World Wildlife Fund. The participants visited the Yu. Korchagin FOIRP and the Corporate Training Center in Ilyinka settlement to assess the quality of the Company's management systems and technologies for themselves.

Oil Refining



The Company's strategic goal in this region is to increase oil refining output and improve profitability and quality of motor gasolines.

LLC LUKOIL-Volgogradneftepererabotka is the largest producer of fuels and lubricants in Southern Federal Okrug. In 2014, the plant's historical record high volume of oil was refined – 11.4 million tons with the refining depth of 92.5% (the Russian average is 72%).

Two investment projects are now underway at the plant. A 6 million ton per year crude oil distillation unit ELOU-AVT-1 was commissioned on June 25, 2015. The unit is the largest of all the units currently operated at Volgograd refinery. In addition, the facility received a gasoline stabilizer and afterfractionating units which helped obtain components of liquefied gases and high-octane gasoline. The unit has a state-of-the-art management system and is fully compliant with the Russian safety laws. It was commissioned as part of a large-scale program for upgrading of the Company's refining facilities. The launch of ELOU-AVT-1 will improve oil refining and increase capacity of Volgograd refinery to 14.5 million tons of oil per year.

Commissioning of one of the Russian oil refining industry's largest projects, a deep vacuum gas oil processing facility, is scheduled for 2016. The new facility is expected to make this plant one of the best ones in Russia. Production of EURO-5 engine fuels will increase by 2 million tons per year with the refining depth of more than 95%. The facility is being constructed according to the four-lateral agreement between OAO LUKOIL, Russian Federal Antimonopoly Service, Federal Environmental, Engineering & Nuclear Supervision Authority, and Federal Authority for Technical Regulation and Metrology.

Also, a high-tech line for packing lubes in large containers was constructed in 2013, which helped better meet the demand for the products and protect the consumers from counterfeits. In addition, an automated system of a storage used for packing the lubes in small containers was installed and commissioned.

The second stage of the coke calcination unit was commissioned which helped to more than double the production of the target product, calcinated coke.



LLC Stavrolen located in Budennovsk is a town-forming enterprise of strategic importance for sustainable development of the economy not only in Stavropol area, but also of the entire krai.

Since 2011, one of Russia's largest investment projects has been implemented at the plant's industrial area titled Processing APG from Northern Caspian fields into Polyethylene and Polypropylene. Upon completion of this project a new gas chemical facility (GCF) will become one of Russia's largest polymer production centers.

GCF construction will help improve the plant's economic efficiency by increasing the gaseous feedstock output (NGL) and to reach a 95% level of APG utilization at the Northern Caspian fields. In addition, the midstream component of the operations will also change. Construction of a Budennovsk railway bypass will help eliminate transportation of feedstock to the plant by tank rail cars involving transit through town.

The progress of this construction project is monitored by the country's government. The project was included into the list of promising projects for implementation of the Strategy for Socio-Economic Development

of North Caucasian Federal Okrug till 2025. Some experts expect it to become a new point of growth and to help actualize the mechanism of incentives for innovation and adoption of new technologies involving high economic benefits, create a polymer cluster connected with SME development, and boost operations at the enterprises that deal with processing of plastic materials and production of import substitution products.

As part of the project, construction of the first stage of the 2.2 billion cubic meter per year feedstock gas processing unit (GPU-1) began in 2013. The facility is due to be commissioned in Q4 2015. The ethylene production unit will also be upgraded this year.

LLC Stavrolen operations maintain a good employment rate in the region. New jobs are created as the operations develop, while construction, erection contractors and other region's entities constantly receive new orders.

"The new Budennovsk gas chemical plant will to a large extent help fulfill the government's assignment to maximize utilization of the associated petroleum gas. In addition, construction of an industrial park for processing of bulk heavyweight chemical products into finished commercial goods located in close proximity to the GCF will create thousands of jobs and result in economic growth for the entire region."

Vagit Alekperov
President of OAO LUKOIL

Public hearings were conducted in 2013 concerning the project for construction of the feed gas and LPG storage facility and the related environmental impact. The need for construction of the storage facility is connected with technical upgrading of the ethylene production

operations and almost doubling NGL consumption. According to the presented calculations, the facility will account for no more than 1% of LLC Stavrolen's total emissions. Public hearings were recognized to have taken place. The declaration of intent to invest into construction and documents containing the environmental impact assessment of the facility were presented for discussion, approved and taken as a basis.



In 2013, a round table meeting was also held. It was dedicated to assessment results of the environmental impact produced by construction and operation of the gas processing unit. It was attended by ecologists, scientists, government officials, representatives of the business community and non-governmental organizations. During the meeting the participants stressed that the industrial facility under construction is not only of great importance for Stavropol Krai, but also for the economy of North Caucasian and Southern Federal Okrugs. As part of the round table LLC Stavrolen was awarded the environmental quality certificate of the Russian National Society for Environmental Protection evidencing that the gas processing unit (GPU-1) complies with safety standards established by the Russian environmental law.

Key Operational Indicators

INDICATORS	2010	2011	2012	2013	2014
Oil refining: LLC LUKOIL-Volgogradneftepererabotka					
Oil refining, mln. tn	11.4	11.1	11.4	10.9	11.0
Commercial output	10.9	10.6	10.9	10.4	10.4
Gas processing: LLC LUKOIL-Korobkovskiy gas processing plant					
APG processing, mln. cu. m	419.0	435.9	428.2	449.5	449.2
Natural gas processing, mln. cu. m.	14.3	5.7	10.5	–	–
NGL, ths. tn	80.5	74.2	72.7	72.5	76.0
Petrochemicals: LLC Stavrolen					
Feedstock processing, ths. tn ¹	181.4	959.7	301.1	902.3	918.5
Commercial output	141.3	710.7	223.5	675.8	684.0

Source: Company data.

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

In 2013, LLC Stavrolen launched production of new polymer grades used in manufacturing hot and cold water supply pipes, in automotive industry and medicine, which helped to enter new markets in Russia and CIS member states.

However, in February 2013 there was an incident connected with a fire outbreak at the ethylene production unit at LLC Stavrolen gas separation shop. This accident did not cause any threat to the environment or any negative impact on the health of the enterprise's staff or Budennovsk population. The hotbed of fire was fully contained on the same day. Seeking to determine the real causes of fire, the commission for technical investigation of the accident causes headed by the Caucasus Office of the Russian Federal Service for Environmental, Technological and Nuclear Supervision extended its work on two occasions, and issued an expert opinion within 90 days. It was established that the fire was directly caused by depressurization of the aluminum heat exchanger as a result of using the feedstock containing corrosive substances that resulted in damage to the corrugated plate of the left heat exchange bay which is evidenced by the Opinion issued by Interunis (Moscow) which acted as an expert organization. In 2014, repair and reconstruction activities were completed at the plant. Actions undertaken by LLC Stavrolen personnel at the time of the fire were evaluated as quick and competent. Eighteen people required medical assistance. As far as severity of the injuries is concerned, they were classified as light. In April 2015, LUKOIL completed repair and reconstruction to eliminate the consequences of the fire outbreak and resumed production of ethylene and propylene.

Petroleum Product Sales



The key goal of sales organizations in the region is to expand the presence and improve the quality of customer service.

In 2013, LLC LUKOIL-Yugnefteprodukt celebrated its 15th birthday by selling its millionth ton of fuel through its retail network.

The key developments in the reporting period included preparation of the enterprise facilities for the Sochi Winter Olympics (18 filling stations and a bulk plant). During the entire period of preparations and hosting of the 22nd Winter Olympic and Eleventh Winter Paralympic Games LUKOIL's filling stations filled the tanks of more than 1,000 vehicles with their high quality fuel every day.

In 2013, 17 new filling stations were added to LLC LUKOIL-Yugnefteprodukt's sales network. The share of premium ECTO fuel in the overall sales output increased by around 50%. Another increase was recorded in bitumen products sales.

Eighteen coffee bars were opened at filling stations which helped boost the sales of non-fuel products and services by 47%.

The Company completed the first stage of its socio-economic project aimed at franchising a number of filling stations to sole proprietors. In this way the Company helps develop small business in the region.

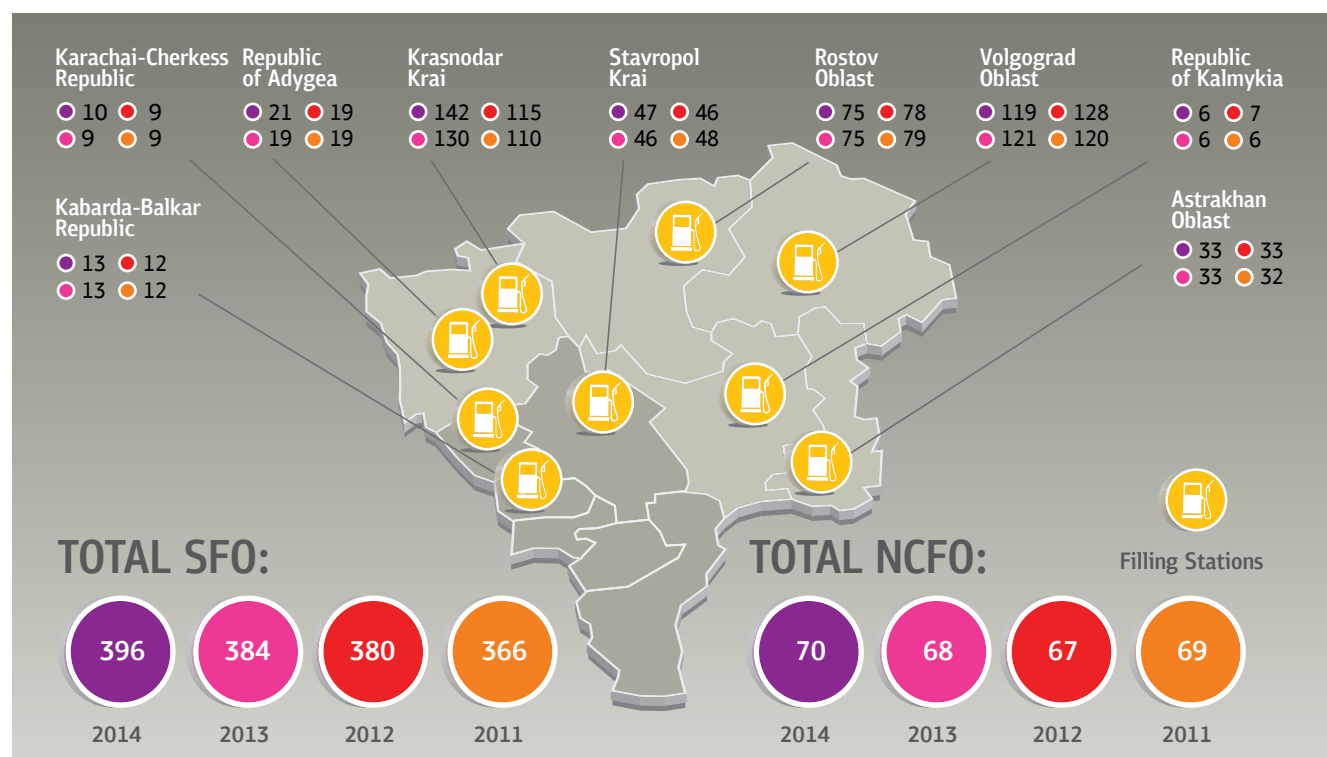


In 2013–2014, LUKOIL's first youth filling stations were opened in the south of Russia. A youth filling station is a brand new innovative and promising project created as part of the Company's overall youth policy concept. The average age of the stations' personnel is below 30. Such filling stations are operating in Krasnodar Krai, Republic of Adygea, and in Rostov-on-Don.

Also, the program is underway in the okrug to switch the filling stations into the automatic operation mode. First automatic filling stations were opened in Volgograd and Krasnodar. The filling stations network was expanded by 10 more stations in Krasnodar Krai.

ECTO-92 and ECTO-95 fuels production modules that inject an additive into EURO-5 fuel were commissioned at bulk plants in the Republic of Adygea and Stavropol Krai.

PRESENCE OF LUKOIL FILLING STATIONS IN THE REGION



Source: Company data.

Power Engineering

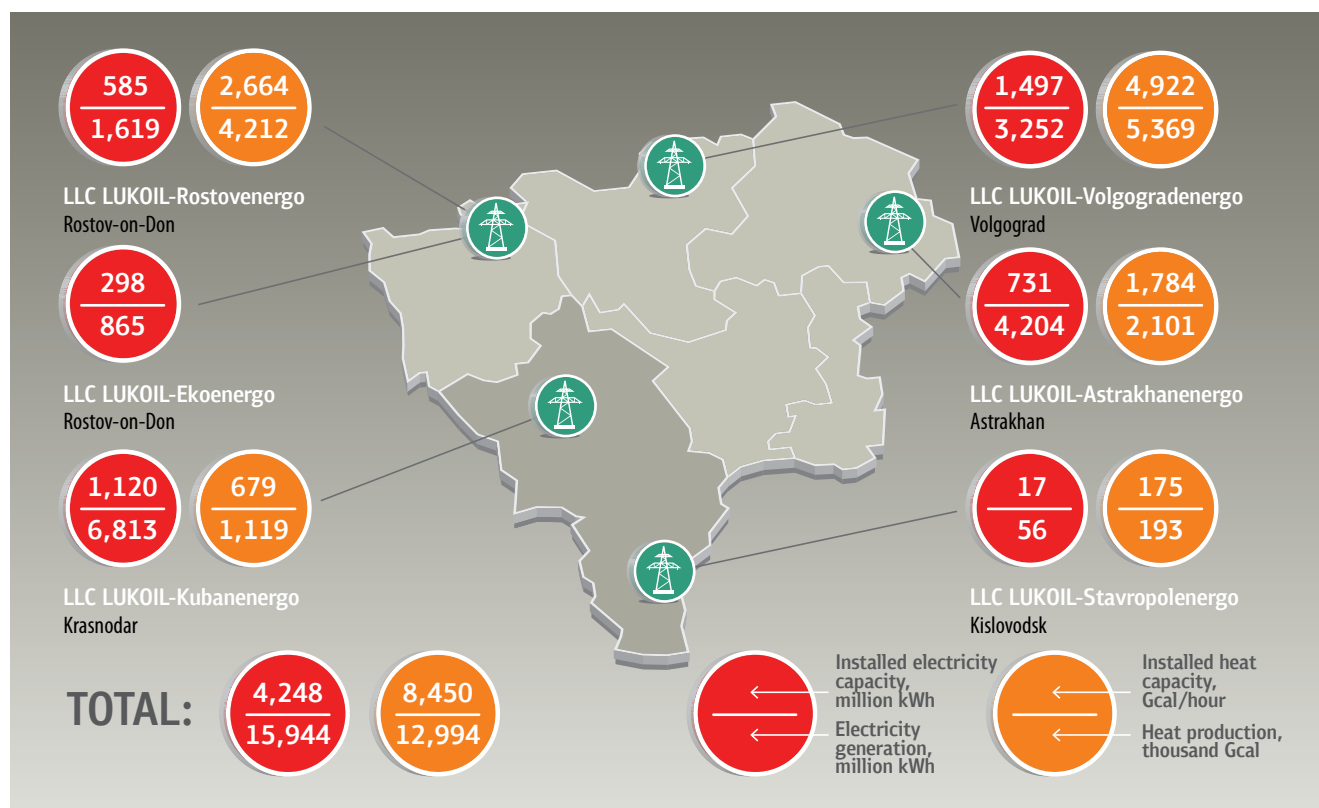


LUKOIL's power engineering facilities operating in Southern Federal Okrug do not only satisfy the needs of the Company's operations, but also supply heat and electricity to external consumers. The strategic goal of the Power Engineering business in this region is to improve cost effectiveness and reliability of energy facilities, as well as to optimize operating parameters of the existing boiler houses and power plants. The key investment projects are aimed at reconstruction and upgrading of power plants.

One of the investment focus areas is the transfer of heat loads from low-performance boiler houses to CHPs, which would result in the shut-down of boiler houses. In 2015–2017, projects in Astrakhan and Rostov-on-Don are to be implemented. Also, a project for upgrading steam turbines is now underway at Rostov CHP-2, which will help increase electricity and heat generation capacity and improve cost-efficiency of the energy generation operations in a cogeneration mode (combined generation of heat and electricity).



GENERATION PARAMETERS OF POWER ENGINEERING FACILITIES



Source: Company data.

To improve performance of electricity and heat generation facilities five steam gas plants (SGP) have been constructed and are now successfully operated: three plants in Astrakhan (SGP-110 MW at Astrakhan state district power plant, SGP-120 MW and SGP-115 MW), SGP-410 MW in Krasnodar (at Krasnodar CHP), and SGP-135 MW in Budennovsk in the Regional Industrial Park located near LLC Stavrolen. As compared to the thermal power plants, SGPs demonstrate lower specific fuel consumption and less air emissions. The total electricity generation capacity of the power generating units commissioned by LUKOIL Group made up 928 MW.

In addition to the investment projects, every year the power plants undergo repairs.

Hydro power plants are also being upgraded. Thus, prior to the 22nd Winter Olympics in Sochi, LLC LUKOIL-Ekoenergo conducted large-scale reconstruction and repairs of the buildings and hydraulic works at the Krasnya Polyana hydro power plant. The activities helped significantly improve energy security and system reliability of power supply to the Olympic facilities.

Implementation of the project will help share the experience and create a common center for management of all the hydro power plants controlled by LLC LUKOIL-Ekoenergo. Thus, a reliable, quick and high-tech power capacity reserve is now available for peak loads.

"We are actually reaching a positive electricity generation balance for a few next years to come. This represents sustainable development of the area in terms of electricity infrastructure."

*Alexandr Zhilkin,
Governor of Astrakhan Oblast*

SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

Social and economic cooperation agreements between LUKOIL and regional administrations are in effect covering all of the key areas of presence.

In the reporting period LUKOIL Group organizations executed the Agreement with the Government of **Volgograd Oblast** by allocating more than RUB 700 million to the region's social and economic development projects.

The Agreement with the Government of **Stavropol Krai** provides for investment and social projects in the region into which the Company is investing more than RUB 500 million.



In **Krasnodar Krai**, as part of a similar agreement, the Company is also implementing a number of important social projects, the total funding for which in 2013–2014 made up RUB 428 million.

Since 2009, LUKOIL has been a bronze sponsor of the Sochi International Investment Forum – the current venue for constructive dialogue between the authorities and business community created with support of the Russian Government to discuss prospects of the country's investment and innovation development, as well as to present large-scale investment projects being implemented in Russia's regions.

One of the priority focus areas of cooperation in **Astrakhan Oblast** is represented by construction of kindergartens. For instance, the Tsvetik-Semitsvetik kindergarten was commissioned in Astrakhan, whose construction began in 2012 by laying a memorable capsule containing a message

to descendants. The construction of the kindergarten was funded by LUKOIL and the Our Future Regional Social Program Foundation, and was donated to the city. Also, upon Our Future Foundation's initiative a sculpture dedicated to the family institution was installed at the observation platform in front of Swan Lake.

In Volgograd Oblast OJSC Ritek provided funding for construction of two kindergartens in Kotovo (for 100 children) and Nikolayevsk (for 80 children). The kindergartens were constructed and commissioned in 2014.

A socially important focus area within the Agreement between OAO LUKOIL and Stavropol Krai Government is represented by a long-term project for training human resources for the future gas chemical plant. The regional polytechnic college provides targeted training in the Chemical Technology of Organic Matter program. LLC Stavrolen guarantees employment to the graduates which helps improve the krai's social wellbeing. Sixty targeted education agreements have already been signed with students.



In addition, large social facilities are being constructed as part of the Agreement. For instance, in September 2014 a capsule was laid in Budennovsk at the construction site of a new sports and health improvement facility with the capacity of hosting 600 people a day. It will offer an ice skating rink, a water park, a stadium for 770 seats, gyms and fitness rooms, a swimming pool and a recreation and rehabilitation center for people suffering from musculoskeletal disorders. This will help the city residents and people from the entire eastern part of Stavropol Krai to live a healthy life and improve their sportsmanship. The facility is due to open in 2016.

Starting from 2011 LLC Stavrolen and Budennovsk administration every year sign a Social and Economic Cooperation Agreement. In 2013–2014, as part of the agreements the Company provided support to kindergartens, a junior college, Stavropol Krai's oldest city library, to Budennovsk local history museum and to the local mass media. In 2012–2014, LLC Stavrolen paid special attention to the city's most important social facilities. Those were: The Community Center and Polymer sports club. Today, Budennovsk Community Center is one of the best in Stavropol Krai in terms of availability of equipment, while Polymer sports club provides the best conditions for the city residents to improve their health.



As part of the four-year partnership agreement in the **Republic of Kalmykia**, the Company is planning to establish and register with tax authorities a separate subdivision to deal with implementation of the project for construction and/or operation of the main onshore facilities and a pipeline system for transfer of oil and gas from the Northern Caspian fields. The Company will also consider participation in the project for restoration of biological resources in the republic.

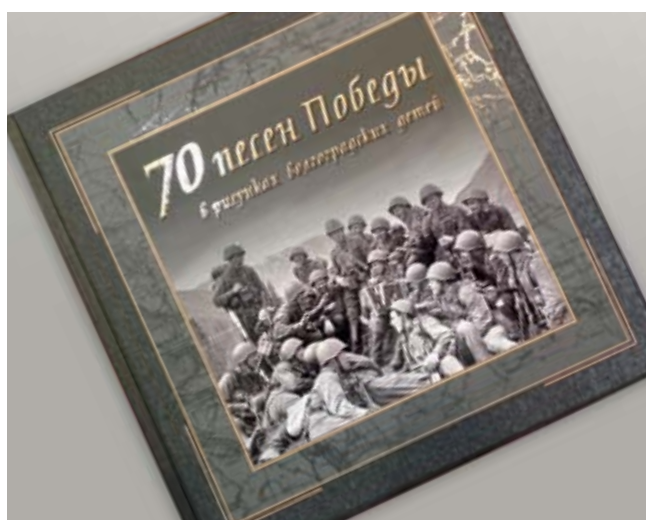
SOCIAL AND CULTURAL PROJECTS CONTEST

Examples of projects financed

Culture

The House of Merchant G.V. Tetyushinov museum-cultural center (Astrakhan) implemented its project entitled Musical Meetings at the Merchant's House. It was based on a popular approach of today: holding open air enlightenment events and cultural entertainment programs for the city residents and guests at the museum premises. More than 3 thousand people joined the project.

The Cossacks Kuren museum of distinctive culture was opened in Chernyi Yar village (Astrakhan Oblast) reconstructing the life style of a Cossack village. 2,000 people have already visited the museum.



A large-scale regional project entitled 70 songs of Victory in Paintings of Volgograd Children dedicated to the 70th anniversary of Victory in the Great Patriotic War is now being implemented in Volgograd Oblast. As part of the project, since October 2014 till May 2015 an Oblast-wide contest of children's paintings was held, following the results of which a similarly named unique album will be published that will include 210 best works that were part of the contest.

Physically Challenged Children and Children who Found Themselves in a Difficult Situation

Astrakhan regional department of the Russian Special Olympics held competitions for physically challenged children. The competitions included Astrakhan Oblast mini football event, Russian national swimming competitions and other challenges that were joined by 68 students of special schools aged 12 to 17.

The Astrakhan State University arranged for scientific and cognitive leisure for primary school children from disadvantaged backgrounds. Development games stimulating reconnaissance and aspiration to research activities were used to build experimental skills that should help them in their studies and develop their personal interests. Project participants – 100 primary schoolchildren from large and low-income families, university volunteer students and teachers.

The Volgograd Oblast Puppet Theater implemented a project called With Ole LUKOJE you will See the Magic Puppet World jointly with their partners – public organizations helping blind and visually impaired children (80 children participated in the project). The project's originality is represented by the fact that stage performances use a special comment system that make things more clear for visually impaired spectators.

Results of Social and Cultural Projects Contest

Contest operator	2013		2014		Regions of project implementation
	Number of projects submitted for the contest	Number of winning projects	Number of projects submitted for the contest	Number of winning projects	
LLC LUKOIL-Nizhnevolzhsknefteprodukt	152	42	106	45	Volgograd Oblast
LLC LUKOIL-Nizhnevolzhskneft	123	38	7	39	Astrakhan Oblast
	11	5	10	5	Republic of Kalmykia

* The Contest is jointly funded by LUKOIL Charity Fund, OJSC RITEK, LLC LUKOIL-Volgogradneftepererabotka, LLC LUKOIL-Volgogradenergo, and LLC LUKOIL-Nizhnevolzhsknefteprodukt, LLC LUKOIL-Nizhnevolzhskneft.



Structure of Charity Expenses



ENVIRONMENTAL SAFETY

The 2013–2018 Environmental Safety Program for Southern Federal Okrug includes activities with a total funding of around RUB 29 billion. The priority focus areas are pursuing a zero waste principle and maintaining APG utilization at 95% or higher during the exploration and development of the Caspian offshore fields.

The program, in particular, provides for introduction of the gas treatment and compression system, recycling of offshore wells drilling waste, utilization of oil sludge, elimination of sludge pits and sludge reservoirs, reconstruction of disposal sites and ash dumps, as well as further reduction of pollutant emissions and discharges.

Key Outcomes of the 2009–2013 Environmental Safety Program

One of the achievements of the previous Environmental Safety Program (for 2009–2013) was the reconstruction and construction of treatment facilities at oil refining and petrochemical enterprises. This helped eliminate the discharge of untreated or insufficiently treated waste water.

Following the results of the program, the quality of waste water was significantly improved at LLC LUKOIL-Volgogradneftepererabotka, and now 90% of all the waste generated by oil refining and petrochemical operations is of low hazard class. One of the key indicators of environmental impact utilized by the Company is specific air emissions. In 2013, the indicator's target for the plant was set at 1.3 kilograms per ton. Following the results of the year the actual figure made up 1.04 kilograms per ton. In 2013–2014, one of the key environmental conservation activities was the recycling of accumulated oil sludge and elimination of the surface sources of air emissions. LLC LUKOIL-Volgogradneftepererabotka has been working hard to achieve this goal for 10 years already. In the reporting period the source of air pollution was fully eliminated in the city's southern industrial hub. It was a sludge reservoir located in Krasnoarmeysk district of Volgograd Oblast – the Company's only site in Volgograd area.

Also, for six consecutive years the enterprise has been planting trees in the sanitary protective zone. More than 9 thousand trees were planted during this period on an area of 90 thousand square meters. Given the region's arid climate, an irrigation water pipeline was also constructed here to utilize drop irrigation technology. As a result a protective green belt was created along the perimeter of the enterprise premises.

The results are evidenced by the data of industrial environmental monitoring at the border of the sanitary protective zone and by analyses of samples from residential blocks of Krasnoarmeysk and Svetlyi Yar districts of Volgograd Oblast. In 2013, more than 8 thousand measurements were made. They did not reveal any cases of exceeding the established maximum permissible concentrations of pollutants in the atmosphere.

Environmental Safety at LLC Stavrolen

Production operations of another Company's plant – LLC Stavrolen – is connected with the use of petrochemicals. The enterprise is responsible to the society for their sustainable utilization, and takes every effort to reduce or prevent a possible environmental impact. This approach is supported by adopting innovations and producing environmentally safer products.

In 2012, the Administration of the Russian Federal Supervisory Natural Resources Management Service for Stavropol Krai jointly with the officers from the Department of the Russian Federal Supervisory Natural Resources Management Service for North Caucasian Federal Okrug confirmed that LLC Stavrolen's environmental safety system is at the level of best practice oil refining and petrochemical enterprises. In the same year the Federal Supervision Agency for Customer Protection and Human Welfare (Moscow city), having reviewed the Design of LLC Stavrolen's Calculated Sanitary Protective Zone, confirmed that the human health risk of chemical effects produced by LLC Stavrolen emissions is at a permissible level. In 2013, in the course of the scheduled inspection the Administration of the Russian Federal Supervisory Natural Resources Management Service



for Stavropol Krai recognized LLC Stavrolen operations as compliant with the Russian law.

A state-of-the-art environmental monitoring system is in place at the enterprise covering all kinds of impact: air, soil, natural, drain, waste water, and ground water. As for the available equipment, LLC Stavrolen's environmental laboratory is one of the best ones in Stavropol Krai. Following 2014, it took a silver medal position in the contest entitled For Measurement Precision as part of the Dew 2014 program of inter-lab comparative tests that was joined by 376 laboratories from Russia and other countries.

There is a fixed station located in LLC Stavrolen's sanitary protective zone that records and processes data on concentrations of substances in the air and transmits the data to the plant's environmental laboratory every 20 minutes. The air composition at the border of the industrial site is measured with an ultraviolet line analyzer that determines concentrations of 38 gases with high precision while making optical measurement of the substance spectra that does not require air sampling and use of chemical agents.

In 2014, a new mobile station was also purchased. It helps monitor the air not only within the enterprise area, but also in the sanitary protective zone and in Budennovsk residential districts, and facilitates under plume observations. Monitoring data is submitted on a monthly basis to the Administration of the Federal Service for Supervision of Natural Resources for Stavropol Krai and to the Administration of the Russian Federal Supervision Agency for Customer Protection and Human Welfare for Stavropol Krai in Budennovsk and Budennovsk district. No cases of exceeding the maximum permissible concentrations were revealed in the reporting period.

In 2014, upon LLC Stavrolen's initiative, environmental scientists conducted a survey of Buffalo Lake. The data obtained by sampling and analyses helped the scientists to make a conclusion that despite the negative environmental rumors the condition of the water body is stable: high diversity of species of aquatic and semi-aquatic plants and animals was confirmed, the lake water can be used for fish farming and recreation purposes. No impact of LLC Stavrolen operations on the water quality was found, which is a confirmation of the water body's sufficient isolation from the plant's water supply and disposal systems.

Environmental Events and Initiatives, Preserving Biodiversity



LLC LUKOIL-Nizhnevolzhskneft continues to support long-term environmental initiatives of the organizations from Astrakhan Oblast and the Republic of Kalmykia, such as the fishermen's Vobla 2013 festival, events entitled Clean Shores and Blue Patrol, Challenges of Preserving Caspian Ecosystems given the Development of Oil and Gas Fields research-to-practice conference, and the Clear Perspective contest for schoolchildren.

Environmental projects of local organizations are also supported as part of the social and cultural projects contest. For instance, Bogdinsko-Baskunchanskiy State Wildlife Preservation Sanctuary (Astrakhan Oblast) received a grant to create artificial nesting grounds for birds of prey who represent one of the key elements of the natural environment, while the Wild Animals Center (Republic of Kalmykia) received funding to monitor the saiga population in the North-Western near-Caspian area, informing the public of the challenges in preserving the populations of saiga and other endangered animal species, and fighting poachers.

Zarechye Socio-Cultural Center (Astrakhan Oblast) regularly cleans the shore area in Krasnyi Yar village jointly with the administration officials, volunteers and schoolchildren – members of the Blue Patrol, a total of 70 people. The project has been funded for a few years already. Over this period the Blue Patrol adopted new members and expanded the shore area covered by their cleaning activities.

STAKEHOLDER ENGAGEMENT

LUKOIL improves its stakeholder engagement in the field of biodiversity. In October 2013, an industry-specific seminar was held at the premises of LLC LUKOIL-Nizhnevolzhskneft and Federal State Unitary Enterprise CaspNIRH in Astrakhan. Its title was Theory and Practice of Introducing Biodiversity Preservation Principles to the Oil Production Industry. The seminar was arranged by the UNDP/GEF/ Russian Ministry of Nature Project entitled Biodiversity Preservation as Part of the Development Policy and Program of the Russian Energy Sector jointly with the UN Global Compact in Russia. The seminar was attended by the government officials, representatives of oil companies that joined the UN Global Compact in Russia, as well as by expert scientists. The participants discussed the challenges of preserving biodiversity, and the current legislation in this field, functions of the Russian Federal Supervisory Natural Resources Management Service, and shared their practical experience in preserving water bioresources and their habitats, and visited LLC LUKOIL-Nizhnevolzhskneft's Corporate Training Center in Ilyinka settlement.

PUBLIC RECOGNITION

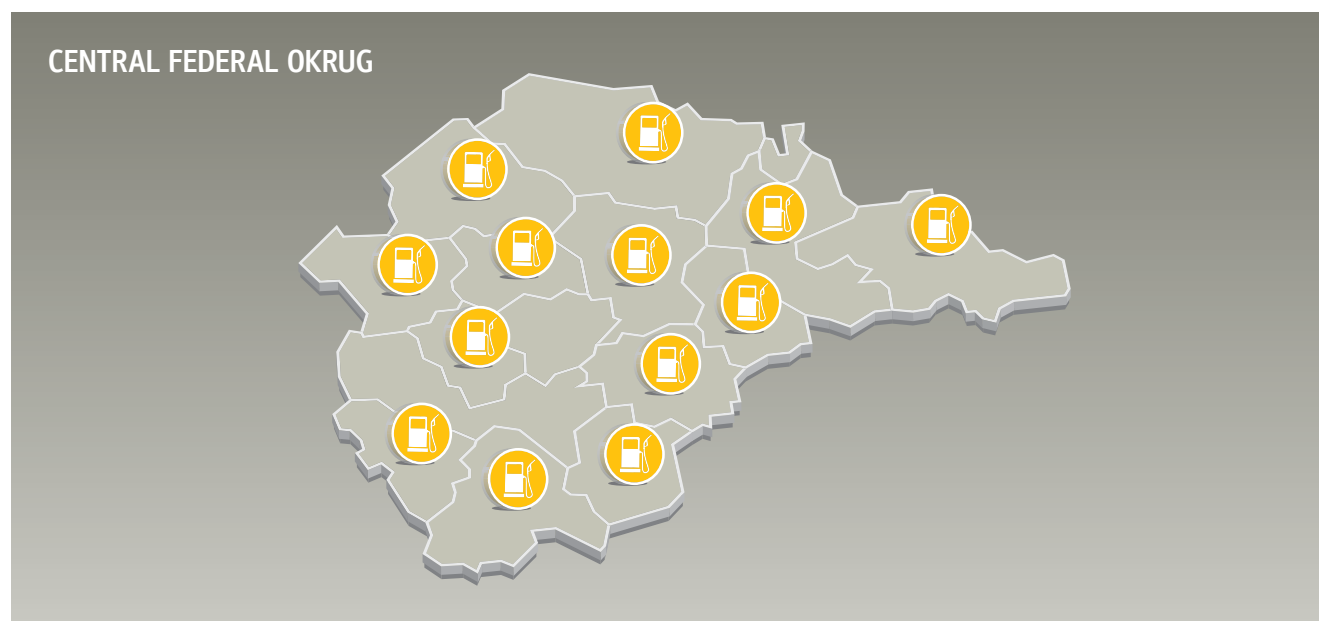
LLC LUKOIL-Nizhnevolzhskneft was awarded a diploma for the first place in the Best Labor Safety Project nomination at the 8th International Conference entitled Shelf of Russia 2013, as well as with the For Outstanding Contribution to Health, Safety and Environment in the Caspian region diploma at the second International Conference entitled Offshore and Onshore Oil Spills. Industrial safety in the fuel and energy industry" (Kazakhstan).

LLC LUKOIL-Volgogradneftepererabotka:

- was recognized The Best Organization of 2014 in the Industry nomination following the Oblast-wide contest;
- was awarded the Diploma of Merit issued by the governor of Volgograd Oblast in 2014 following the regional contest entitled Environmentally Responsible Enterprise and Organization of Volgograd Oblast;
- was awarded a diploma of the Russian Union of Industrialists and Entrepreneurs following the results of the Russian National Leaders of Russian Business: Performance and Responsibility – 2014 contest in the For Environmental Responsibility nomination.

LLC LUKOIL-Yugnefteprodukt became winner of the Best Filling Station of Krasnodar Krai contests in 2013 and 2014 in the nominations entitled Enterprise of High Social Responsibility, Innovation of the Year, and The Best Rural Area Filling Station.

Moscow, Moscow Oblast, Belgorod, Bryansk, Vladimir, Voronezh, Kaluga, Lipetsk, Ryazan, Smolensk, Tver, Tula, Kursk, Tambov, and Yaroslavl Oblasts



ОАО ЛУКОЙЛ

LLC LUKOIL-Tsentrnefteprodukt

LLC LUKOIL-Nizhnevolzhsknefteprodukt

LLC LUKOIL-Volganefteprodukt

LLC LUKOIL-Chernozemyenefteprodukt

LLC LUKOIL-Trans

ECONOMIC ROLE AND INVESTMENTS

Key enterprises in the federal okrug are represented by sales companies, among which the key role is played by LLC LUKOIL-Tsentrnefteprodukt. A number of LUKOIL Group's management companies are also located here.



In the reporting period LLC LUKOIL-Tsentrnefteprodukt commissioned 26 facilities after construction, acquisition, and reconstruction in Moscow, Moscow Oblast, Smolensk and Tver Oblasts. Six new filling stations were constructed and 20 more resumed their operations after reconstruction.

In July 2014, LLC LUKOIL-Tsentrnefteprodukt acquired a network of motor filling stations following the results of the public bidding process for the sale of property conducted by the Moscow City Department for Competition Policy. All the acquired stations are located in Moscow. Complete rebranding of new assets in line with the ОАО LUKOIL corporate style is due before the year-end 2015. According to the bidding terms and conditions, LLC LUKOIL-Tsentrnefteprodukt undertook to sell liquefied hydrocarbon gas at the acquired stations for at least 25 years starting on the agreement date. Sales of gas fuel

at LUKOIL's filling stations in Moscow will help significantly improve environmental characteristics of the capital.

The Company continued its program aimed at providing free Wi-Fi access at all the filling stations with a coffee bar.

On July 1, 2013, LLC LUKOIL-Chernozemyenefteprodukt was founded on the basis of the central administration office in Voronezh. On July 10, 2014, the Company's two unique motor fuel filling stations of new customer service format were officially launched at the 720th kilometer of M-4 Federal Don Road in Verkhniy Mamont district of Voronezh Oblast under the governmental order near the Osetrovskiy Bridgehead historical and cultural recreation facility. Both the stations

have been made to provide comfort to the motorists who would fill their tanks when driving both south and north. The facilities include a filling station, a C-store, free security parking area, state-of-the-art car wash, car service for trucks and passenger cars, and a tire fitting shop. They have comfort zones for children and adults, a baby-changing room, and a summer coffee bar offering a wide range of dishes and fresh bakery. Free Wi-Fi access is available at the entire area of the facility. Friendly conditions were created for physically challenged people.

On September 15, 2014 an official opening ceremony of new type of filling station – No. 155 Molodezhnaya – took place in Tula. All the station's personnel are below 31. Newly employed staff receive on-the-job training at this filling station. Such filling stations are operating in Krasnodar Krai, Republic of Adygea, and in Rostov-on-Don.

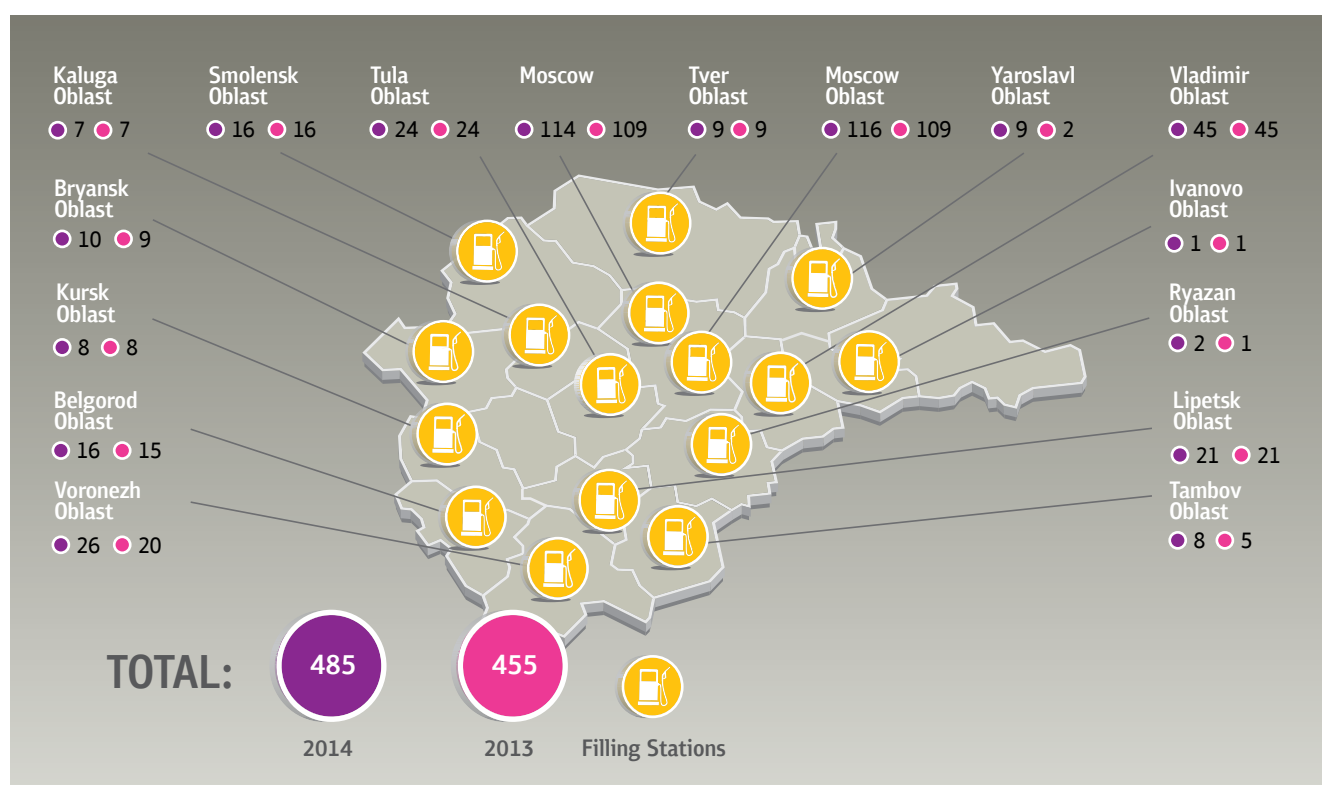
Key Economic Performance Indicators

INDICATORS	2013	2014
Total taxes paid*, RUB mln., including:	20,722	26,432
to the Russian federal budget	11 216	17,967
to budgets of the Russian subjects	9,462	8,431
to the local budgets (cumulative figure)	44	34
Investments, RUB mln	4,269	2,282

* The foregoing data is provided for the reporting period only, as the investment calculation methods were updated in 2013, and the methods used for calculation of paid taxes were modified in 2013 due to the introduction of the consolidated taxpayer group concept.

Source: Company data.

PRESENCE OF LUKOIL'S FILLING STATIONS IN THE REGION



Source: Company data.

Midstream



Currently, LLC LUKOIL-Trans includes four companies for whom it provides management services under the contracts for assignment of authority of the sole executive body (OJSC

Varandey Terminal, LLC RPK-Vysotsk-LUKOIL-II, LLC LUKOIL-Kompleksny Neftyanoy Terminal (Complex Oil Terminal), and LLC LUKOIL-Kamarskaya Bulk Plant) and a fully owned subsidiary of LLC VARS.

Indicators of LLC LUKOIL-Trans and its managed companies

INDICATORS	UNITS OF MEASUREMENT	2011	2012	2013	2014
Transshipment	mln. tn	20.96	19.76	18.55	19.41
Railway transportation	mln. tn	30.69	29.55	28.96	29.54
Pipeline transportation	mln. tn	2.49	2.27	2.43	2.29
TOTAL	mln. tn	54.14	51.58	49.94	51.24

Source: Company data.

SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

The master cooperation agreement between OAO LUKOIL and the administration of Moscow Oblast expires on December 31, 2017 and will be automatically extended for each next calendar year subject to mutual consent.

The priority areas in cooperation are the construction of the petroleum product pipelines to supply light products to Moscow Oblast, expansion of the filling stations network, development of social and sales infrastructure within the areas occupied by filling stations, as well as creation of charging infrastructure for electromobility.

SOCIAL EVENTS

A milestone which took place in the reporting period was the opening of the first sales outlet as part of the pilot project jointly launched by LUKOIL and the Our Future Regional Social Program Foundation at filling station No. 475. By the end of the reporting period products of social entrepreneurs operating in the region had already been presented at the counters of several filling stations in Moscow Oblast.

In April–May 2014, a joint charity event titled Doing Good in One Touch Is Priceless was organized at all the filling stations jointly with MasterCard. Each time the filling station customers paid with a MasterCard a ruble from that transaction would be transferred to the Together foundation to fight cancer.

In the reporting period LLC LUKOIL-Tsentrnefteprodukt jointly with the Moscow City Government implemented a unique social project of the city's program to teach the children to swim titled Moscow Mayor's Test – I Can Swim. The program was implemented at ten administrative districts of Moscow involving 80 city swimming pools and 500 children's swimming pools at preschool institutions. The result was that 120 thousand children learned to swim.

MARKETING EVENTS

From February till the end of April 2014 a special campaign titled Free Goods for the Journey was run at LLC LUKOIL-Tsentrnefteprodukt's filling stations in Moscow and Moscow Oblast. As part of the offer, customers who bought 30 or more liters of any fuel received free goods from the filling station's store.

In August 2014, final awards ceremony was held for the participants of the Flight to MMArS with LUKOIL campaign, where they received valuable prizes and gifts. The promo was run from June 16 till August 10 at more than 2,000 Company's filling stations all across Russia.



Every year in June–July LLC LUKOIL-Tsentrnefteprodukt in cooperation with At the Wheel magazine organizes a motor marathon at the near-Moscow NAMI autodrome for the vehicles assembled in Russia titled 60 Hours with "At the Wheel Magazine". The goal of the marathon was to estimate the durability of vehicles, run the most mileage in the shortest time. During five days (12 hours per day) the vehicles have to drive along the autodrome's high-speed track at the maximum possible speed. The time in motion, refueling and driver change times are recorded, and, more importantly, malfunctions and related unscheduled pit stops to fix the defects. The vehicle that did not require any repairs or whose repairs take minimum time, in other words, the most reliable and durable one, wins the competition.

In October–December 2014, LLC LUKOIL-Tsentrnefteprodukt jointly with LLC LUKOIL-Severo-Zapadnefteprodukt had a special offer "Fill up 100%", as part of which each tenth customer who bought 30 or more liters of fuel and registered at special offer's promo website received "100 rubles to his/her cell phone" as a prize. During the campaign, each participant could receive a maximum of two such prizes and one main prize. On January 30, 2015, after the promo's results were summed up, the main prizes were awarded to the participants.

who registered the largest number of valid receipts. This was either a 100,000 points fuel LICARD or iPhone 6 Plus or a GoPro action camera.

Also, in the reporting period traditional promo offers were available at LLC LUKOIL-Tsentrnefteprodukt filling stations titled Great Weekend (special retail prices were set at all of the filling stations on weekends for all types of fuel (50 kopecks cheaper than on weekdays)), and The Victory Day.

ENVIRONMENTAL EVENTS

In 2014, environmental rally of retro-hybrid cars and electromobility entitled From the Past into the Future started out on the Ecologist's Day in Moscow from the monument to Yuriy Dolgorukiy. The rally was organized by the Rally Club of Classic Automobiles with support of the Moscow City Department of Nature Management and Environmental Protection and LLC LUKOIL-Tsentrnefteprodukt.

Results of Social and Cultural Projects Contest

Contest operator	2013		2014		Regions of project implementation
	Number of projects submitted for the contest	Number of winning projects	Number of projects submitted for the contest	Number of winning projects	
LLC LUKOIL-Volganefteprodukt	14	4	4	1	Vladimir Oblast

Structure of Charity Expenses



ENVIRONMENTAL PROTECTION

New treatment facilities were constructed at Vyazniki bulk plant in Vladimir Oblast.

PUBLIC RECOGNITION

LLC LUKOIL-Volganefteprodukt became winner of the Oblast-wide contest entitled Eco-Enterprise 2014 held by the Department of Nature Management and Environmental Protection of Vladimir Oblast administration.

In 2014, the Department of Nature Management and Environmental Protection of Vladimir Oblast administration awarded the team

of Vladimir regional office of LLC LUKOIL-Volganefteprodukt with a letter of acknowledgment For Active Involvement in the Second Russian National community Work Day "Green Russia and Active Citizenship" and another letter of acknowledgment For Active involvement in the Russian National Community Work Day "Green Spring in Vladimir Oblast".

In 2014, Vladimir regional office of LLC LUKOIL-Volganefteprodukt jointly with the Department of Nature Management and Environmental Protection of Vladimir Oblast administration and Vladimir branch of the Russian Presidential Academy of National Economy and Public Administration issued an environmental calendar for year 2015. The calendar contains important environmental dates that will be celebrated by the environmental community in 2015.

APPENDICES

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Appendices 1. Report Scope and Reporting Process

REPORTING PERIOD

The sixth Sustainability Report (the Report) was prepared for the 2013–2014 period. The previous Report was published in autumn 2013. The Company issues the reports once every two years.

USE OF NON-FINANCIAL REPORTING SYSTEMS

The Report was prepared using the Sustainability Reporting Guidelines of the Global Reporting Initiative GRI version 3.0, AA1000 Standards (1999), the Global Compact and the Social Charter of Russian Business. The Company estimates its compliance with GRI at level B+.

REPORTING BOUNDARIES AND SCOPE

The reporting boundaries have not changed compared to the previous Report. The Report highlights LUKOIL Group activities in Russia. The following changes in the organizational structure occurred in the reporting period:

- in 2013, a 100% interest in CJSC Samara-Nafta was purchased.
- in 2013, LUKOIL Group's interest in CJSC Kama-Oil was increased to 100%;
- in 2013, TPP RITEK-Kogalymneft was integrated into LLC LUKOIL-West Siberia;
- in 2013, LLC LUKOIL-Chernozemyenefteprodukt was founded;
- in 2014, consolidation of the assets of LLC Naryanmarneftegaz and LLC NMNG-MNA was completed, and their licenses were re-issued in the name of LLC LUKOIL-Komi;
- in 2014, LLC LUKOIL-Permneftegazpererabotka was included into LLC LUKOIL-Permnefteorgsintez;
- in 2014, TPP RITEK-Nadymneft was merged under TPP RITEK-Beloyarskneft.

The Report contains information about the subsidiaries, in which LUKOIL's stake exceeds 75%. The organizations are included into the reporting boundary according to the extent to which their business influences the overall economic, social, and environmental performance results of LUKOIL Group..

List of Subsidiaries Covered by the Report

BUSINESS SEGMENTS AND BUSINESS SECTORS	ORGANIZATIONS
CORPORATE CENTER	ОАО LUKOIL
UPSTREAM	
OIL AND GAS PRODUCTION IN RUSSIA	LLC LUKOIL-Komi, LLC LUKOIL-Kaliningradmorneft, LLC LUKOIL-West Siberia, LLC LUKOIL-PERM, LLC LUKOIL-Nizhnevolzhskneft, OJSC RITEK
DOWNSTREAM	
BUSINESS SECTORS	
OIL REFINING IN RUSSIA	LLC LUKOIL-Ukhtaneftepererabotka, LLC LUKOIL-Nizhegorodnefteorgzintez, LLC LUKOIL-Permnefteorgsintez, LLC LUKOIL-Volgogradneftepererabotka
GAS PROCESSING	LLC LUKOIL-Korobkovskiy gas processing plant
PETROCHEMICALS	LLC Saratovorgsintez, LLC Stavrolen
PETROLEUM PRODUCTS SUPPLY IN RUSSIA	LLC LUKOIL-Severo-Zapadnefteprodukt, LLC LUKOIL-Uralnefteprodukt, LLC LUKOIL-Permnefteprodukt, LLC LUKOIL-Volganefteprodukt, LLC LUKOIL-Nizhnevolzhsknefteprodukt, LLC LUKOIL-Yugnefteprodukt, LLC LUKOIL-Tsentrnefteprodukt, LLC LUKOIL-Chernozemyenefteprodukt
POWER ENGINEERING	Power generation LLC LUKOIL-Astrakhanenergo, LLC LUKOIL-Rostovenergo, LLC LUKOIL-Volgogradenergo, LLC LUKOIL-Kubanenergo, LLC LUKOIL-Stavropolenergo, LLC LUKOIL-Ekoenergo
MIDSTREAM	Part of LLC LUKOIL-Trans: OJSC Varandey terminal, OJSC RPK-Vysotsk LUKOIL-II, LLC LUKOIL-Complex Oil Terminal, LLC Kambaraskaya Bulk Plant
OTHER ACTIVITIES	LLC LUKOIL-BUNKER, LLC LUKOIL-AERO, LLC LUK-International, LLC Arkhangelskgeoldobycha



LIMITATIONS IN THE REPORT SCOPE

The Report does not include information on LUKOIL Group Organizations operating outside of Russia.

Also, Power Engineering business companies were excluded from the reporting scope due to the immaterial effect they produce on LUKOIL Group's overall sustainable development indicators: midstream (LLC LUKOIL-Energoseti, LLC LUKOIL-Heat Transportation Company), marketing (LLC LUKOIL-Energoservice, OJSC Astrakhan Power Supply Company), services (LLC LUKOIL-Engineering, LLC LUKOIL-CUR).

Some indicators contained in the report refer to the entire LUKOIL Group (including international assets), of which relevant notices are available in the Report.

MATERIAL ISSUES AND STAKEHOLDER ENGAGEMENT

The techniques used to determine significant Report topics include the following:

- interview of the heads of LUKOIL's key structural subdivisions with regard to the report structure and contents;
- content of the dialogue;
- analysis of publications about the Company and reports of other energy companies with a similar scope of business operations;
- analysis of significant events in the industry.

The analysis confirmed the importance of issues that were highlighted in the previous reporting periods, t.i.:

- sustainable use of all types of resources;
- utilization of cutting-edge technologies to maximize the use of existing asset capabilities;
- environmental impact of the Company's business;
- relations with the key stakeholder groups;
- socially important activities in the regions of presence.

REPORTING PROCESS

The reporting process was managed by the Reporting Team, whose members represent the Company's following structural subdivisions: Public Relations Department, Human Resources and Organizational Development Block, Department of Industrial Safety, Environment and R&D, as well as International Association of Trade Union Organizations (IATUO).

REPORTING PRINCIPLES

Balance. The Report mentions both achievements and problem areas. The Report contains both overall results of sustainability activities, and the data with a breakdown by business segments and key Russian regions of operations.

Comparability. The report contains key indicators (economic, environmental, social) which have been changing over the last five years. The authors continued to cover the topics from the previous reports.

Accuracy. The Report contains the Company's officially recognized data. The accuracy of the information contained in the Report is ensured by the reliability of LUKOIL Group's consolidated data (including audited financial statements). The Report has been checked as part of the internal data verification procedures.


Timeliness. Data available in the Report was provided in a timely manner, in other words in connection with the suggestions of stakeholders and as soon as they were ready.

Clarity. Generally, the Report does not contain any professional language and provides no information that requires special knowledge.

Reliability. Competent departments and subsidiaries have checked the data contained in the Report.

The Report has been verified by the Council for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs.

Appendices 2. Table of compliance with GRI, Global Compact and Social Charter

	C	C+	B	B+	A	A+
Self declaration						
Third party verification						
GRI check						

Aspects	Reporting elements and GRI indicators	Global Compact principles	Indicators of the Social Charter of Russian Business	In Report (section, page) / Other data sources
Address of the President	1.1			Address of OAO LUKOIL's President, page 2
Description of key impacts, risks, and opportunities	1.2		1.1	Address of OAO LUKOIL's President, page 2 LUKOIL's annual statements and financial reports, Analyst Databook, and Fact Book (http://www.lukoil.ru/realms/investor/default_6_.html)
Scope of Organization. Organization's description and strategy	2.1 – 2.10		1.2, 1.3, 1.6, 1.7	LUKOIL Group in 2013–2014, page 3–5 Energy and Society: Strategies and Cooperation, page 7, 9, 13–20 LUKOIL's annual statements and financial reports, Analyst Databook, and Fact Book (http://www.lukoil.ru/realms/investor/default_6_.html)
Report data	3.1 – 3.13			Appendices 1. About report and reporting process, page 117
Organizational Management and Stakeholder Relations	4.1 – 4.17		1.1	Energy and Society: Strategies and Cooperation, page 8–10, 21–23 High Quality Products and Services, page 25–29 HSE Management System, page 31–37 Personnel Management, page 42–50 Company and Community, page 55–66 Sustainable Development of the Russian Regions
Economic Performance Indicators	EC1 (partially)		1.2, 1.3, 1.6, 1.7	LUKOIL Group in 2013–2014, page 5
	EC3		1.8	Personnel Management, page 40
	EC7			The indicator is irrelevant for the Company
	EC8, EC9		1.5	Sustainable Development of the Russian Regions

Aspects	Reporting elements and GRI indicators	Global Compact principles	Indicators of the Social Charter of Russian Business	In Report (section, page) / Other data sources
Environmental Performance Indicators				
Energy	EN3 – EN7	Principles 8 and 9	2.2	Energy and Society: Strategies and Cooperation, page 15–18
Water	EN8, EN10	Principles 8	2.3, 2.4, 2.3.1	Health, Safety and Environment Management System, page 35–36
Biodiversity	EN12	Principles 8		Sustainable Development of the Russian Regions
Emissions, discharges, and waste	EN16 EN19 – EN23	Principles 7, 8, 9	2.5, 2.6, 2.7, 2.8, 2.9 2.6.1, 2.7.1, 2.7.2, 2.8.1	HSE Management System, page 34, 36–37 Sustainable Development of the Russian Regions EN19 indicator is irrelevant for the Company
Products and Services	EN26	Principles 7, 8, 9	2.11	High Quality Products and Services, page 25–29
Total expenses	EN30	Principles 7, 8, 9	2.12	Health, Safety and Environment Management System, page 33
Social Performance Indicators				
Employment rate	LA1 LA3	Principle 6	3.1.1 (partially)	Personnel Management, page 44
Labor relations	LA4, LA5	Principle 3	3.2.1	According to the Russian Labor Code and collective bargaining agreements No labor disputes have been registered in the reporting period
Health and safety at workplace	LA7 (partially), LA9	Principle 1	3.1.5, 3.1.9	Personnel Management, page 51–53 LA9 – unchanged vs. previous Report
Personnel training and development	LA11	Principles 1, 6		Personnel Management, page 45
Human Rights Human rights and investment contracts	HR1	Principles 1, 2, 3		Company and Community, page 60–62
Non-discrimination, exclusion of children's and forced labor, right to associations and collective disputes	HR4 – HR7	Principles 1, 2, 6	3.2.2	No such cases were recorded in the reporting period
Society Obstacles to competition	S01 (partially)			Company and Community, page 59
Relations with authorities			3.3.1, 3.3.2, 3.3.3, 3.3.4, 3.3.5	Sustainable Development of the Russian Regions Company and Community, page 55–58
Products Consumer health and safety	PR2, PR4	Principle 1		PR2, PR4 – no such cases were recorded in the reporting period
Product labeling	PR5		3.4.2	Quality Products and Services
Marketing communications	PR7	Principle 1		No such cases were recorded in the reporting period



Российский союз промышленников и предпринимателей

СВИДЕТЕЛЬСТВО

об общественном заверении
корпоративного нефинансового отчета

Отчет Группы «ЛУКОЙЛ» о деятельности в области устойчивого развития на территории РФ за 2013–2014 годы

прошел общественное заверение в Совете РСПП
по нефинансовой отчетности

Развернутое заключение Совета РСПП об общественном заверении Отчета Группы «ЛУКОЙЛ» о деятельности в области устойчивого развития на территории РФ за 2013–2014 годы направлено в Компанию, которая может публиковать его без каких-либо изменений и использовать как для внутрикорпоративных целей, так и в целях коммуникаций с заинтересованными сторонами.

Регистрационный номер 073.01.014.01.14

Президент РСПП



Москва, 2015

А.Шохин



Conclusion of the RUIE Council for Non-Financial Reporting following review of the 2013–2014 Sustainable Development of LUKOIL Group in Russia conducted for the purposes of public verification

The Council for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (hereinafter referred – the Council), established in accordance with decision of the Management Committee (Resolution of June 28, 2007), reviewed the 2013–2014 Report on Sustainable Development in Russia (hereinafter – the Report) upon the request of OAO LUKOIL (hereinafter – the Company, Group or LUKOIL).

The company approached the Russian Union of Industrialists and Entrepreneurs with the request to conduct a public verification, which is a way to determine completeness and relevance of the information contained in the Company's Sustainability Report from the perspective of the Social Charter of Russian Business, outlining the principles of responsible business practices.

The Council reviewed the contents of the Report submitted by the Company from July 24 to July 11, 2015 and prepared this Conclusion in accordance with the Regulations for public verification of corporate non-financial statements approved by the Council. The Council members have the requisite competences in corporate responsibility, sustainable development and non-financial reporting, comply with the ethical requirements in regard to the independent and unprejudiced nature of their assessments, express their personal expert opinions, and not the opinions of the organizations they represent.

The Council is mindful of the fact that the Report describes the Company's sustainable development activities in Russia.

The Report was reviewed in the light of the following criteria to determine completeness and relevance of the information it contains:

Information is regarded as relevant if it is exhibitivе of the Company's activities to implement the principles of responsible business practices outlined in the Social Charter of Russian Business (www.rspp.ru).

Completeness implies that the Company's Report comprehensively covers its activities, values and strategic targets underlying these activities, management systems and structures, achievements and key performance indicators, as well as relations with the stakeholders.

The Company's employment of the International Reporting System is taken into consideration for the purposes of the public verification of the Report. However, confirmation of the Report's compliance with the international reporting systems is beyond the scope of this Conclusion.

The Company shall be responsible for the information and statements contained in the Report. Reliability of the actual data contained in the Report is not subject to public verification.

This Conclusion is prepared for the Company, which can use it both for in-house purposes or for communication with stakeholders by publishing it as is.

FINDINGS

Based on the Report review, publicly available information published on the official corporate website of the Company, as well as the collective discussions of the independent Report assessment results completed by the members of the RUIE Council for Non-Financial Reporting, the Council hereby confirms the following:

LUKOIL Group's 2013–2014 Report on Sustainable Development in Russia contains significant information, covers the key areas of responsible business practices in accordance with the principles of the Social Charter of Russian Business, and is exhibitivе of the Company's performance in the given fields.

The recommendations of the RUIE Council issued on the basis of the public verification of the Company's previous report for 2011–2012 were taken into account in the 2013–2014 Report for amplification of detailed data in regard to corporate management, financial and economic performance of the Company, comprehensive description of relations with the stakeholders, environmental impact figures with a breakdown into regions and business sectors. Social aspects of sustainable development in the regions of the Company's presence are also covered in more detail.

The Company's 2013–2014 report contains information that is relevant to the following aspects of responsible business practices in Russia:

Economic Freedom and Responsibility: B The Report outlines the key outcomes of the Company's strategy and its sustainable development performance, including a breakdown into business sectors. Changes in the key financial, economic and production performance indicators are shown for the period of the last five years. The Company identifies its strategic targets until 2021 and establishes its development priorities for 2015–2016. The Report describes the effort that the Company invested to improve the quality of its products and its quality management accomplishments. It mentions commissioning and precommissioning of new fields and completion of a massive energy facilities launch program. It lists the projects included in LUKOIL Group's 2015–2017 investment program and provides examples of application of new oil production technologies, innovative developments that help increase oil conversion rates, product quality and energy efficiency of its facilities. The report describes the management structure of the Group's research and design complex serving to investigate and implement new resource saving technologies. It contains information on the corporate governance and risk management systems, personnel management system, social investments and health, safety and environment. It also describes the role of LUKOIL's organizations in the national economy and in five federal regions (okrugs), and their contribution to the industry's innovative development.

Business Partnership: The report states that relations with the key stakeholder groups are defined in a number of Company's regulations. It highlights cooperation mechanics and mentions adoption of the Shareholder Relations Policy and key areas of its application, including such new forms as meetings with minority shareholders held in the regions. The Report also describes the experience of interactions with organizations representing employees, including international bodies, and mentions the Agreement signed between the employer and the trade union association for 2015–2017. It highlights health and safety improvement programs, as well as those intended to maintain strong social protection for the personnel. The Report contains sections on the Company's involvement with the state programs and participation of its experts in the federal legislation improvement process. Some of the information is related to the execution of the social and economic cooperation agreements made with the regional and municipal administrations. Adoption of the customer-oriented gas station concept is mentioned, which involves introduction of mechanisms to study consumers' opinions and plan of measures to raise customer satisfaction. The Report also describes cooperation with the major Russian and global companies, relations with research entities and NGOs, as well as business associations on a wide range of subjects associated with the Company's operations.

Human Rights: The Report also states that the Company is committed to observance of its employees labor rights. It comprises information on securing safe working environments, opportunities for employee

development and the rights of employee representative bodies to participate in decision making on social and labor matters, including collective bargaining mechanisms. According to the Report, the existing practice in this area is based on the fundamental principles of the Russian and international law, as well as on the corporate documents elaborated under such legislation, including the Social Code and the Personnel Management Policy. The Report contains information about the Company's actions to protect the rights of the minor indigenous ethnicities of the North that populate the territories of the Company's operations, and preserve their cultural heritage.

Environmental protection: The Report sets the strategic environmental safety benchmarks of LUKOIL Group, lists the key environmental risks, and specified the major investment projects aimed to reduce the consumption of resources and energy and mitigate adverse environmental impacts. It states that the health, safety and environment management system was certified against the requirements of ISO 14001 and OHSAS 18001. The contents of the Report include information about the development of the fifth functional LUKOIL Group's Environmental Safety Program for 2014–2018, a process that involved a number of other stakeholders. The Report also mentions energy conservation programs adopted for 2014 and 2015–2016, as well as energy management systems introduced in the Group's enterprises in compliance with ISO 50001:2011. There are some examples of green power generation projects. It is mentioned that the Company has reached a rate of 95% APG utilization in some regions and adopted a new efficient APG utilization program for 2014–2016. Some of the parts concern control of greenhouse gas emissions. The Report specifies the measures taken by the Company to mitigate the risk of emergency oil spills, readiness to respond to such spills, reclaim disturbed lands, preserve biodiversity in the areas adjacent to the offshore fields developed by the Company. The Company's environmental performance is described in much detail, and its environmental performance indicators cover a period of five years i.e. between 2010 and 2014.

Involvement in development of local communities: The Report describes the Company's involvement in development of the Russian regions of its presence, and discloses information about the Company's contribution into their economy and social life. It is stated in the document that the policy for relations with local communities is defined in the Company's Social Code. Joint activities with the Regional Social Programs Foundation "Our Future" in development of social entrepreneurship is highlighted. The Report contains information on social projects contests held in 15 regions, various children-focused programs, targeted assistance to veterans, physically challenged people and other unprotected population groups. The Company's charity activities are discussed. Those target preservation of cultural and historical heritage, promotion of folk crafts, support of sports organizations. The charity expenses are stated with breakdown by focus areas for 5 years. Dialogues with stakeholders in Nizhniy Novgorod and Saint-Petersburg are highlighted.

Final Provisions

On the whole, the information contained in the Report reflects the Company's consistent effort in implementing the sustainable development and corporate citizenship principle in its business practices. The Report discloses comprehensive information on key areas of the Company business, provides long-term and short-term goals, and a lot of specific indicators describing the economic, social and environmental performance results, as well as the influence the Company produces on the public and environment, including the extensive information on the Company's involvement in sustainable development of the Russian regions of LUKOIL Group's operations.

In making the Report the Company followed the guidelines applicable to Russian and global reporting practices (GRI G3, AA 1000, UN Global Compact, Social Charter of the Russian Business), which contributes into a better succession and comparability of the information from various reporting cycles, as well as into comparability with other companies' reports.

The Report for 2013–2014 is the sixth non-financial report of LUKOIL who regularly submits its reports on a two-year basis, demonstrates consistency in development of its reporting practices, and shows its commitment to the principles of transparency and openness.

RECOMMENDATIONS

Onoting the advantages of the Report, the Council would like to draw LUKOIL's attention to a number of aspects important for stakeholders concerning information relevance and completeness and recommends to consider them in the next reporting cycle.

The Council also notes that the recommendations issued following the review of the previous 2011–2012 report, are still relevant and may be used in the Company's further reporting practices.

Worth mentioning is the fact that the information about the Company's performance in the reporting period will be more complete due to comparison of actual vs. planned data, thus making it possible to see whether what was achieved corresponds to what had been planned. Incorporation of information on the tasks and activities planned for the next reporting cycle in the key business areas, may also enhance the information value of the Report, which will give one a better idea of the progress in implementation of LUKOIL's Strategy adopted for 2012–2021.

It is recommended to better highlight in the next reports the application of the Code of Business Conduct in Company's practices, anti-corruption procedures that are in place and measures undertaken. Those are important elements of responsible business practices, and represent material information for the stakeholders.

Given the fact that responsibility in the supply chain is of great importance today, and taking into account the experience

accumulated by the Company in the field of responsible business practices, it is recommended that in future reports more information be provided on supplier and contractor relations. It is advisable to provide more details on the requirements to the partners in the field of business ethics, health and safety, environmental and social responsibility, and to highlight the procedures that are in place and the outcomes of such interaction.

The report contains much detail on environmental aspects of the Company's operations. Significant focus areas of the Report include sustainable use of all kinds of resources and environmental impact of the Company's business. Given the priority currently attached to the environmental topic it would be a good idea to also better address the issues that are of importance for the industry and stakeholders, for instance, utilization of water and oil spills. It is recommended to increase disclosure and provide more details on waste water, taking into account its transfer to the companies that are not within the scope of the report (LUKOIL-Energoseti). This information is material, including as regards responsibility in the supply chain.

Given the Company's accumulated reporting experience, and the fact that it has readily available data collection and aggregation procedures in place, it is recommended to consider preparing a sustainable development report on an annual basis to speed up disclosure of information to stakeholders. This is increasingly important against the background of the general public's growing interest to the business, and the related active development of independent techniques for external assessment of the business conducted by companies. Such techniques include various ratings and indices (environmental, corporate social responsibility/sustainable development, etc.) that are based on the analysis of information on responsible business practices disclosed in a timely manner in corporate reports available for the general public.

The Company's scope of reporting is limited to disclosure of information on LUKOIL Group's Russian assets as the Company's key production base. At the same time, the Group also has foreign assets including refining enterprises, and some information is still available about them in the Report. In order to provide better disclosure about the business conducted by the Group that is becoming increasingly active on the global market, it is advisable to consider expansion of the reporting scope in future to include material information on sustainable development across all the key assets, including those located abroad.

The Company highlights the contents of its dialogues with the stakeholders in this Report. To achieve more complete disclosure it would be a good idea to show in the next reporting cycle how the Company takes into account in its business the proposals of the dialogue participants, in particular as regards planning and implementation of social and environmental programs. Such information would show that the Company's has an efficient feedback mechanism, and evidence the benefits from the Company's interaction with the stakeholders.

In preparing this Report the Company followed an approach based on the technique that involves selection of significant topics to determine the Report's main contents, which is in line with the GRI recommendations. Future reports should provide more detail on the techniques for determination of significant topics, while substantiation of their choice should provide more information on how opinions of the stakeholders were taken into account.

F.T. Prokopov

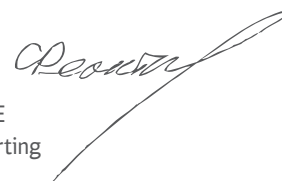


Chairman of the RUIE Council
for Non-Financial Reporting

The issues mentioned above are increasingly important if the Company is planning to follow the new GRI version G4 in future.

By giving a positive assessment to the Report, in support of the Company's adherence to the principles of responsible business practices and noting its consistency, the RUIE Council for Non-Financial Reporting confirms that LUKOIL Group's 2013-2014 Report on Sustainable Development in Russia passed the public verification procedure.

E.N. Feoktistova



Deputy Chairwoman of the RUIE
Council for Non-Financial Reporting

REFERENCE INFORMATION

The Report has been published on the Company's website at www.lukoil.ru (Russian language) and at www.lukoil.com (English language).

Should you have any questions or want to discuss any topic of this Report that is of interest to you, feel free to contact the Company at the following email address:
socotchet@lukoil.com

► LEGAL ADDRESS AND CENTRAL OFFICE

11, Sretensky Boulevard, Moscow, 101000, Russia

► CENTRAL INFORMATION SERVICE

Tel.: +7 (495) 627-44-44, 628-98-41

Fax: +7 (495) 625-70-16

► PRESS SERVICE

Tel.: +7 (495) 627-16-77

Fax: + 7 (495) 627-16-53

E-mail: media@lukoil.com

► TERMS AND DEFINITIONS USED HEREIN

Names and words "OAO LUKOIL"¹, "LUKOIL Group", "PJSC LUKOIL", "Group", "LUKOIL", "Company", "LUKOIL company", "LUKOIL oil company", "we", and "our" used herein shall have the same meaning and refer to LUKOIL Group of companies, LUKOIL and/or its subsidiaries, as the context requires.

¹ The Company changed its name to the Public Joint-Stock Company LUKOIL (PJSC "LUKOIL") to bring it in compliance with the requirements of Chapter 4 of the Civil Code of the Russian Federation. The amendments and supplements to the Articles of the Association of the Open Joint-Stock Company LUKOIL Oil Company also providing for the Company's name change approved by the Annual General Shareholder Meeting on June 25, 2015, were registered on July 06, 2015.

