

Appendix No.5 to Minutes No.23
of the Meeting of the Board of
Directors of PJSC “LUKOIL”,
28 October 2016

**RISK MANAGEMENT AND
INTERNAL CONTROL POLICY
OF PJSC “LUKOIL”**

1. General Provisions

1.1. This *Risk Management and Internal Control Policy of PJSC “LUKOIL”* (hereinafter, the Policy) is developed in compliance with the RF Legislation, the Charter of Public Joint Stock Company LUKOIL Oil Company (hereinafter, the Company), the recommendations contained in the Corporate Governance Code approved by the Board of Directors of the Bank of Russia, as well as the recommendations of international professional organizations for risk management and internal control, including those set forth in the “Enterprise Risk Management. Integrated Framework” Concept and the “Internal Control. Integrated Framework” Concept of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

1.2. The Policy is aimed at development and improvement of the Risk Management and Internal Control System (hereinafter, the RM & ICS) of the LUKOIL Group entities in order to ensure its reliable and efficient performance at the level compliant with the goals and objectives of the LUKOIL Group entities.

1.3. The Policy determines the common RM & ICS formation principles and approaches binding upon the Company and other LUKOIL Group entities, sets its goals and objectives, as well as the key tasks for the RM & ICS participants (parties).

1.4. The Policy shall apply to PJSC “LUKOIL” itself and other LUKOIL Group entities.

1.5. The Policy and the regulatory documents of the LUKOIL Group entities based on it shall be implemented in accordance with the procedure and the requirements of the applicable legislation and charters of the LUKOIL Group entities.

1.6. The risk management and internal control standards as well as requirements set forth by the regulatory documents of the LUKOIL Group entities shall be consistent with the Policy.

1.7. Amendments and addenda to the Policy shall be introduced by decision of the Company’s Board of Directors.

2. Terms and Definitions

This Section contains the key terms and definitions used for the purpose of this Policy:

Business Process shall mean a fixed set of operations interrelated in terms of their functionality whose fulfillment leads to the achievement of the results that are of value to internal or external consumers. The Company’s business processes and their owners are defined by the *Regulations on the LUKOIL Group Corporate Management System* and the *Regulations on the Corporate System of Authority and Responsibility Distribution in the LUKOIL Group*;

Risk Probability shall mean the measure (degree) of probability of risk occurrence within a certain period of time;

Business Process Owner shall mean an employee of the LUKOIL Group entity responsible for functional management of the Business Process;

Risk Owner shall mean an employee of the LUKOIL Group entity appointed in accordance with the established procedure responsible for management of a specific risk;

Internal Control shall mean the process performed by the management and supervision authorities of the LUKOIL Group entities, their employees aimed at providing reasonable assurance of the achievement of goals of the LUKOIL Group entities related to operating activities, preparation of financial statements, compliance with the legislative requirements, those of local regulations, adopted corporate principles, standards and rules;

Acceptable Risk shall mean the risk that in view of the set Risk Appetite can be accepted without any additional measures to mitigate it. Unlike Risk Appetite, Acceptable Risk applies to specific goals and is measured in the same units as the respective goals;

Cross-Functional Risk shall mean the risk that is managed as part of several Business Processes;

Risk Management and Internal Control Monitoring shall mean a continuous process conducted by the RM & ICS participants aimed at inspection and control of the major risk management and internal control processes in order to obtain unbiased information on their reliability and efficiency, as well as prompt identification of the drawbacks that require corrective measures;

LUKOIL Group Entities shall mean PJSC “LUKOIL” and/or its subsidiaries;

Residual Risk shall mean a risk with the characteristics assessed in view of the assumption that all proposed risk response measures will be implemented in full;

Person Responsible for Risk shall mean an employee of the LUKOIL Group entity who, in view of his/her professional duties and/or the provisions of the applicable legislation, local regulations, shall be responsible for achievement of a goal (performance results as part of the task assigned) that may be negatively affected by the respective risk in case of its occurrence;

Risk Portfolio shall mean an aggregate of all identified relevant risks that may negatively affect the achievement of the required result as part of a Business Process, a Project or a certain goal subject to several risks;

Risk Impact shall mean the negative effects as part of the risk occurrence upon the goals of the entity that can be assessed either qualitatively and/or quantitatively;

Project shall mean a set of related temporary operations aimed at achieving specifically set objectives within the set scope of operations, respective resources and timelines;

Internal Control Procedure shall mean the actions formalized in accordance with the established order, including the automated ones aimed at achieving control-related goals;

Regulatory Documents shall mean the documents that set forth the goals, tasks, principles and authority and responsibility distribution within the LUKOIL Group management system approved either by the management or an employee of the LUKOIL Group entity as part of the authorities granted to them according to the established order;

Risk shall mean a possible future event, whose occurrence may be detrimental to the accomplishment of the goals set before the LUKOIL Group entities. The risk is characterized by its probability and possible consequences;

Risk Appetite shall mean the maximum possible risk determined in accordance with the established order that is reasonably acceptable as part of the activities of the LUKOIL Group entities. The Risk Appetite is a characteristic feature typical of the organization as a whole and shall be determined as a maximum possible deviation from the key goals of the LUKOIL Group entities;

Risk Profile shall mean a combination of all and any identified relevant risks of the LUKOIL Group entity and their characteristics;

Risk Management and Internal Control System (RM & ICS) shall mean an organized and interrelated set of risk management and internal control processes implemented within the LUKOIL Group entity; participants (subjects) implementing the respective processes based on the organizational structure applicable in the LUKOIL Group entity; standards, requirements and norms applicable in the LUKOIL Group entity that regulate the risk management and internal control activities;

Risk Management System shall mean a sub-system within the Risk Management and Internal Control System focused on risk management task accomplishment;

Internal Control System shall mean a sub-system within the Risk Management and Internal Control System focused on the internal control task accomplishment;

Way of Risk Response shall mean a decision determining the LUKOIL Group entity's common task of particular risk management that is made as part of the risk management process. Risk exclusion (avoidance), risk mitigation, risk acceptance are possible Ways of Risk Response;

Current Risk shall mean the risk whose characteristics are determined as of the current date without consideration of any actions that could be taken to mitigate it;

Risk Management shall mean the process conducted by the management authorities of the LUKOIL Group entities, their employees aimed at providing reasonable assurance of strategic goal achievement of the LUKOIL Group entities, as well as the goals related to their operating activities, preparation of statements, compliance with the legislative requirements. The process is implemented via risk identification, their assessment and subsequent risk response to mitigate them down to the Acceptable Risk level;

RM & ICS Participants (Subjects) shall mean management authorities of the LUKOIL Group entities (net of general meetings of shareholders/participants), structural subdivisions and employees of the LUKOIL Group entities, as well as specially established control authorities.

3. General Description of Risk Management and Internal Control

3.1. Risk Management and Internal Control in the LUKOIL Group entities constitute interrelated, continuous processes implemented by the management and employees as part of their professional tasks aimed at providing reasonable assurance of the achievement of goals of the LUKOIL Group entities through identification of risks

posing threats to the goals, and subsequent response to the identified major risks thus mitigating them down to the Acceptable Risk level.

As applied to the LUKOIL Group entities, risk shall mean a possible future event, whose occurrence may be detrimental to the accomplishment of the goals set before them. Under the possible future event we understand the event in relation to which there is information available at the present moment allowing one to make a realistic assumption that the said event may occur under certain circumstances, however, the available information is not sufficient to state that this event is inevitable.

Under reasonable assurance of the achievement of goals we understand the assurance based on the necessary and sufficient unbiased information on the part of the management or the employee of the LUKOIL Group entities responsible for achievement of a certain goal, of the fact that the said goal will be achieved, while possible deviations from the expected performance results as part of its achievement will not exceed the acceptable values.

3.2. The risk management process covers all activities of the LUKOIL Group entities, and presents an inherent component of the Company's strategy development, activity planning of the LUKOIL Group entities and activities aimed at execution of the decisions made.

Prompt identification and unbiased assessment of all major risks both at the activity planning stage and as part of the execution of the made managerial decisions serve as the basis for risk management in the LUKOIL Group entities. Availability of the possibly exhaustive and reliable information on the current risks jointly with their unbiased assessment is pre-requisite for successful implementation of the following risk management stages: selection of ways of risk response, development and implementation of measures to ensure realization of the selected ways of risk response, risk monitoring.

3.3. The internal control process covers all activities of the LUKOIL Group entities. Identification of current risks that may be efficiently mitigated via exercising due control over the processes subject to the said risks, serves as a basis for internal control in the LUKOIL Group entities. Control over processes is exercised through development, arrangement and implementation of special, economically feasible internal control procedures either eliminating or minimizing the respective risks.

At the same time, organization of the internal control function shall facilitate employees in pursuing the desired line of conduct, without creating unnecessary barriers to their performance, preventing reasonable initiative on their part or being focused exclusively on punishment for underperformance and errors.

3.4. The risk management process is mainly focused on the future and takes into account the following: the total scope of risks accepted by the LUKOIL Group entity; the effect these risks may produce upon major goals of the LUKOIL Group entities; risk causes; possible ways to mitigate them through making the most important managerial decisions. In view of the data specified within the risk management process a way of particular risk response is selected determining the common risk management task.

The specified key aspects of the risk management process determine the need to integrate it, first of all into the arrangement and planning processes of the LUKOIL Group entities' activities across all management levels.

Internal control is mainly focused on the present and influences the risks through application of the Internal Control Procedures as related to the known major risks of the LUKOIL Group entities that can be mitigated through proper control.

In this connection internal control processes are applied as part of the routine activities of the LUKOIL Group entities aimed at achievement of the set goals thus ensuring implementation of the Ways of Risk Response selected at the planning stage.

3.5. The risk management and internal control processes are integrated into the activities of the LUKOIL Group entities, in other words, they are implemented not separately from all other business processes and implemented projects but rather as part of them thus ensuring proper efficiency of Business Processes and Projects.

3.6. Implementation of the risk management and internal control processes in the LUKOIL Group entities with the efficiency degree meeting the expectations of the shareholders and investors of PJSC "LUKOIL", applicable requirements and recommendations is ensured through the RM & ICS arrangement and development within the LUKOIL Group entities that would comprise two sub-systems, the Risk Management System and Internal Control System.

4. Goals of the Risk Management and Internal Control System

The goal of RM & ICS development and performance is to provide reasonable assurance of the following in a situation characterized by uncertainty and unfavorable circumstances:

- strategic goals;
- operating goals including the goals to ensure efficient financial and economic activities and efficient use of resources;
- goals to ensure asset safety;
- goals to ensure compliance of all forms of statements, including accounting (financial), statistical and management statements with the set requirements;
- goals to ensure compliance with the applicable legislative requirements and those of the regulatory documents of the LUKOIL Group entities.

5. Objectives of the Risk management and internal control system

RM & ICS shall have the following objectives:

5.1. Prompt identification, analysis and unbiased assessment of the risks associated with achievement of the goals of the Company and other LUKOIL Group entities at all levels of the management system, development and regular update of Risk Profiles and Risk Portfolios;

5.2. Control over Risk Portfolios and Risk Profiles of the LUKOIL Group entities in terms of their acceptability based on Risk Appetite;

5.3. Development and prompt implementation of procedures and rules to determine ways to respond to the identified risks and respective measures ensuring efficient implementation of the Ways of Risk Response;

5.4. Identification of the current risks associated with the Business Processes and Projects being implemented that are to be mitigated via proper internal control;

5.5. Development, introduction and timely implementation of internal control procedures as related to the identified risks thus providing reasonable assurance of achievement of the planned performance results;

5.6. Regulation and standardization of risk management and internal control processes;

5.7. Monitoring of reliability and efficiency of the used ways to respond to major risks, and the state of internal control within the business processes subject to major risks;

5.8. Prompt identification of drawbacks, deviations and violations as part of the Business Processes and Projects being implemented, initiation of development of risk response measures;

5.9. Improvement of the risk management and internal control processes based on contemporary knowledge and developments as part of the respective business lines, as well as analysis results of the identified drawbacks related to the specified processes;

5.10. Providing reliable information on the risks related to the decisions made as part of the managerial decision-making processes.

6. Principles of Establishment and Performance of the Risk Management and Internal Control System

RM & ICS establishment and performance within the LUKOIL Group entities is based on the following key principles:

– **Integration** – RM & ICS is an integral part of the corporate governance system, with risk management and internal control processes integrated into all business processes and daily operations exposed to major risks;

– **Risk Orientation** – RM & ICS establishment is aimed at prompt identification of all risks with their subsequent ranking in view of their significance, which is a prerequisite for efficient and sustainable risk response in a situation characterized by limited resources;

– **Continuity** – RM & ICS is implemented on a permanent basis, which makes it possible to promptly respond to all major risks;

– **Comprehensiveness** – RM & ICS is applied to all stages and management levels and in all subdivisions, covers all areas of activities and all risks;

– **Adaptability** – RM & ICS establishment ensures its prompt self-improvement and development necessary to achieve RM & ICS goals in the changing internal and external business environment of the LUKOIL Group entities;

– **Methodological Uniformity** – RM & ICS processes are organized and implemented on the basis of uniform company-wide principles, approaches, standards and requirements;

- **Responsibility** – an employee of the LUKOIL Group entity is responsible for the RM & ICS process and result as part of his/her rights, obligations and responsibilities appointed to him/her in accordance with the established order;
- **Sufficiency** – the applied risk response measures are sufficient for efficient management of the identified risks and RM & ICS goal achievement;
- **Economic Feasibility** – the resources and expenses allocated to RM & ICS task settlement are economically expedient considering mitigation of the managed/controlled risks;
- **Division of Powers, Obligations and Responsibility** – distribution of powers, obligations and responsibility among RM & ICS participants (subjects) depending on their role as part of the processes of development, approval, execution and control over the managerial decisions ensures either elimination or considerable mitigation of the risks associated with errors and/or conscious abuse on the part of the participants (subjects), specifically, such as deliberate disregard for the applied internal control procedures;
- **Formalization** – RM & ICS establishment and related processes are formalized at the level sufficient for correct and clear understanding by all RM & ICS participants (subjects) and other concerned parties of the applicable system of powers, obligations and responsibility distribution among RM & ICS participants (subjects) related to RM & ICS task settlement;
- **Informativeness** – the information developed as part of RM & ICS performance is reliable and makes it possible to conduct monitoring and make unbiased assessment of the RM & ICS efficiency. The communications used as part of the RM & ICS enable the participants of Business Processes and other concerned parties to promptly get up-to-date information in the amount sufficient for them to perform their respective objectives.

7. Limitations of the Risk Management and Internal Control System

7.1. In its activities the Company objectively considers the existing limitations typical of any RM & ICS that manifest themselves in the fact that even the most perfect RM & ICS cannot guarantee the achievement of goals of the LUKOIL Group entities. Considering this fact the Company is seeking to develop and improve RM & ICS in order to minimize the risks related to the said limitations.

7.2. In order to make weighted managerial decisions the management authorities of the LUKOIL Group entities consider the following causes for RM & ICS limitations in the achievement of the set goals:

- Uncertain future and resulting impossibility to accurately assess the Probability and Consequences of the identified risks that may cause major, and, in certain cases, critical errors in the managerial decisions;
- subjectivity of the assumptions serving as a basis for the managerial decisions;
- deliberate violation of the set rules and procedures by the employees of the LUKOIL Group entities;
- involuntary errors of the employees of the LUKOIL Group entities;

– influence of the external unforeseen events beyond control of the LUKOIL Group entities.

8. Participants of the Risk Management and Internal Control System, their Major Tasks

There are the following RM & ICS participants (subjects)¹:

8.1. Board of Directors of PJSC “LUKOIL”:

- determines company-wide principles and approaches to RM & ICS establishment to be anchored down in the Company’s local regulations;
- determines the Risk Appetite as PJSC LUKOIL’s strategic development program is approved;
- exercises control over reliability and efficiency of RM & ICS performance, while for this purpose at least once a year it considers the issues of RM & ICS establishment, performance and efficiency, gives recommendations to improve it.
- by virtue of the decisions made develops a proper understanding of the need and importance of efficient Risk Management and Internal Control task accomplishment on the part of the employees of the LUKOIL Group entities.

8.2. According to the *Regulations on the Audit Committee of the Board of Directors of PJSC “LUKOIL”* the Audit Committee of the Board of Directors of PJSC “LUKOIL”:

- exercises control over RM & ICS reliability and efficiency, including efficiency assessment of risk management and internal control procedures of the Company, and preparation of proposals to improve it;
- conducts analysis of implementation assessment in the area of risk management and internal control;
- exercises control over procedures ensuring the Company’s compliance with the legislative requirements, as well as ethical norms, rules and procedures, stock exchange requirements;
- prepares recommendations for the Company’s Board of Directors related to the approved local regulations on RM & ICS issues.

8.3. President of PJSC “LUKOIL”:

- based on the principles and approaches determined by the Company’s Board of Directors ensures development and efficient performance of RM & ICS;
- sets tasks aimed at the Company’s RM & ICS improvement and development;
- exercises control over RM & ICS efficiency, as well as over accomplishment of the set tasks aimed at its improvement and development;
- heads the Risk Committee, determines composition of the Risk Committee and organizes its activities;
- by exercising control over the Company’s current activities, including control over the activities of the Management Committee of PJSC “LUKOIL”, develops a

¹Composition of the RM & ICS participants (subjects) of a particular Company’s subsidiary depends on its organizational structure.

proper understanding of the need and importance of the efficient Risk Management and Internal Control task accomplishment on the part of the employees of the LUKOIL Group entities.

8.4. **Management Committee of PJSC “LUKOIL”**, while being guided by the principles and approaches to RM & ICS organization, determined by the Company’s Board of Directors, shall set the procedure and norms of its performance finalized in the local regulations approved by The Management Committee of PJSC “LUKOIL”, within the scope of its competence shall make decisions on certain issues of Risk Management and Internal Control organization within the Company.

8.5. **Risk Committee** is a collegial body under the President of PJSC “LUKOIL” responsible for addressing risk issues. The powers, responsibility and the working procedure of the Risk Committee shall be determined by the *Regulations on the Risk Committee* approved by the Company’s Management Committee. The Risk Committee shall perform the following major tasks:

- coordinates risk management in the Company;
- appoints Owners of major Cross-Functional Risks of the Company;
- issues recommendations for the President and the Management Committee of PJSC “LUKOIL” regarding implementation of the Policy and other local regulatory acts dealing with RM & ICS;
- analyzes the Company’s Risk profile, if appropriate, develops recommendations on corrective measures.

8.6. **Senior Vice-President of PJSC “LUKOIL” of Finance** performs the tasks of the Owner of the following Business Processes: “Risk Management” and “Internal Control”, set forth by the *Regulations on the LUKOIL Group Corporate Management System*, as part of which:

- controls development of the proposals to improve and develop the specified business processes;
- initiates consideration of draft decisions on RM & ICS improvement and development by the authorized management bodies of the Company;
- informs PJSC LUKOIL’s Board of Directors, the Audit Committee of the Board of Directors, the President and the Management Committee, as well as the Risk Committee of the issues related to the Company’s RM & ICS performance within their competence;
- ensures control over relevance of the Company’s local regulations setting requirements to RM & ICS, also in view of the requirements and recommendations of regulators in relation to which the Company assumed the relevant obligations.

8.7. **Department for Risk Management and Internal Control of PJSC “LUKOIL”** is a structural subdivision subordinate to the Senior Vice President of Finance established to perform the following major tasks aimed at RM & ICS establishment and performance.

- general coordination of the Company’s activities aimed at RM & ICS improvement and development;

- development and updating of local regulations setting major principles, rules and methodology of the “Risk Management” and “Internal Control” Business Processes;
- participation in expert review of draft resolutions of the Company’s management authorities potentially related to possible major risks;
- organization and, if appropriate, control in the maximum risk areas determined by virtue of the decision of The President of PJSC “LUKOIL”;
- development and improvement of the information resources within the Risk Management and Internal Control System;
- methodological support of the Company’s structural subdivisions in terms of RM & ICS establishment and development;
- preparation of consolidated reports and information materials on the issues of RM & ICS establishment and performance within their competence for PJSC LUKOIL’s Board of Directors, the Audit Committee of the Board of Directors, the President and the Management Committee of the Company, as well as the Risk Committee;
- development of proposals to develop and improve RM & ICS, also in view of the recommendations of the Company’s internal audit subdivisions based on the inspections and consultations performed;
- control over compliance with the Company’s legal interests, as part of the decision-making by general shareholder (participant) meetings, Board of Directors (Supervisory Boards) of the Company’s subsidiaries;
- organization of audit activities in the Company’s subsidiaries;
- the Company’s personnel training in the area of Risk Management and Internal Control.

8.8. Line Managers of PJSC “LUKOIL”

- within the scope of their duties organize and implement risk management and internal control processes as related to the asset portfolios and/or projects under their linear control;
- exercise control over reliability and efficiency of RM & ICS components related to the asset portfolios and/or projects under their linear control.

8.9. Functional Managers of PJSC “LUKOIL” (Owners of Business Processes)

- ensure integration of Risk Management and Internal Control into the Business Processes under their functional control in order to ensure proper efficiency of these business processes;
- as part of the respective business processes exercise compliance control with the set norms and requirements in the area of Risk Management and Internal Control, assess their efficiency and, as appropriate, adjust them.

8.10. Heads of the LUKOIL Group Entities (except for the President of PJSC “LUKOIL”) acting by virtue of the charter of the respective organization:

- ensure RM & ICS establishment and efficient performance within the LUKOIL Group entity in compliance with the common principles and approaches;
- exercise control over RM & ICS performance efficiency, as well as over accomplishment of the set tasks aimed at its improvement and development;

-by exercising control over the current activities of the LUKOIL Group entity, develop a proper understanding of the need and importance of efficient Risk Management and Internal Control task accomplishment on the part of the employees.

8.11. Employees of the LUKOIL Group Entities (except for the persons specified in Clause 8.10 hereof, and the President of PJSC “LUKOIL”):

- ensure RM & ICS establishment, support and continuous monitoring across respective linear and functional areas of activities within the respective structural subdivisions along the whole management vertical, and implement Risk Management and Internal Control measures in compliance with the professional duties assigned to them by virtue of job descriptions and/or regulatory documents;

- as Persons Responsible for Risk promptly identify and analyze risks associated to the activities of the LUKOIL Group entities;

- develop, formalize and ensure further efficiency and adequacy of the Risk Management and Internal Control measures as part of their business processes;

- update description of controlled processes, including the Internal Control procedures;

- conduct monitoring of RM & ICS performance across in their business lines, as well as independent efficiency assessment of the internal control process either organized or implemented by them;

- implement Internal control procedures and/or perform the functions of Risk owners in compliance with the set norms and requirements;

- inform the management of any made or possible errors/drawbacks that either caused or may cause potential negative events;

- improve their skills in the area of Risk Management and Internal Control, including by means of centralized organized training based on the approved programs.

8.12. Internal Audit Service of PJSC “LUKOIL” and specialized internal audit subdivisions of the LUKOIL Group entities conduct independent RM & ICS reliability and efficiency assessment and develop recommendations to improve it.

8.13. Audit Commission of PJSC “LUKOIL” exercises control over financial and economic activities of the Company in compliance with the requirements of the applicable legislation of the Russian Federation, the Charter of PJSC “LUKOIL” and the *Regulations on the Audit Commission of PJSC “LUKOIL”*.

9. Approaches and Requirements to Establishment and Performance of the Risk Management and Internal Control System

9.1. RM & ICS is part of the corporate governance system, while RM & ICS efficiency greatly depends on the Company’s internal (control) environment that comprises a set of applicable standards, processes and structures. The internal environment serves as a basis for Risk Management and Internal control, in which connection as part of its establishment and development the Company seeks to pay special attention to the following aspects:

- introduction of behavioral standards focused on ensuring employees’ adherence to the Company’s ethical principles and values;

- establishment of efficient management structures and respective distribution of powers, obligations and responsibility, compliant with the Risk Management and Internal Control tasks as well;
- development and retention of competent employees capable of accomplishing the Company's relevant tasks;
- allocation of sufficient resources to create the necessary conditions for efficient arrangement of risk management and internal control processes, as well as to implement the selected Ways of Risk Response;
- development of understanding on the part of the employees of their role within the corporate governance system and the effect produced by their performance upon the performance of the other employees and the LUKOIL Group entities as a whole;
- monitoring over general development of the internal (control) environment, its prompt adjustment for accomplishment of new tasks, including prompt updating of the applicable regulatory documents of the LUKOIL Group entities.

9.2. Goal setting for each management level of the LUKOIL Group entities² compliant with their interests and focused on achievement of major objectives related to their establishment (activities) is a key pre-requisite for RM & ICS efficient performance. The Company is seeking to improve the goal setting process in view of the following major approaches:

9.2.1. Any newly set goal is associated with new risks, disregard of which causes damages for the LUKOIL Group entities, including unacceptable ones. In order to prevent such cases, the following requirements shall be set for all goal setting processes:

- requirements to risk identification and assessment (including those beyond control of the LUKOIL Group entity) that may occur within the LUKOIL Group entity as a result of setting the respective goals, with specification of possible deviations from the planned performance results;
- requirements to the selection of Ways of Response to the identified major risks, key measures to implement the suggested Ways of Risk Response, and expenses on their implementation.

The adopted managerial goal setting decisions shall consider and reflect the above information on the risks related to the set goals. Further on this risk information shall be used for Risk Management organization for the risks related to the respective goal as part of the goal accomplishment, as well as for subsequent analysis of the obtained results.

9.2.2. Retention of the Risk Profile of the LUKOIL Group entity within reasonable limits is the key Risk Management task. This task can be also accomplished as part of the goal setting process in view of the respective Risk Portfolios and the Risk Appetite determined for the LUKOIL Group entity as a whole.

² Under goal we understand any specific end result that requires certain activities to achieve it. There are the following examples of goals: Key performance indicators (including those as part of investment projects), Plans; Programs; Budgets; separate managerial decisions determining the end result of certain activities.

9.3. Risks are identified as part of the event forecasting process that may occur in future and produce a positive, negative or mixed effect on the performance indicators of the LUKOIL Group entity. The events with the negative effect are considered risks requiring assessment and response. While organizing the risk identification process the Company pays special attention to:

- analysis of the internal and external factors that may result in risk occurrence;
- forecasting and assessment of the external and internal environmental changes that may produce a significant effect upon the activities of the LUKOIL Group entity;
- development of a possibly full list of risks that produce an especially significant effect upon achievement of the key goals, including risks with a low occurrence probability, in order to ensure constant control over the risks posing considerable threats on the part of the responsible employees;
- identification of risk interrelations and risk classification in order to further determine the most expedient risk management efforts and resources in a situation when they are limited.

9.4. Unbiased assessment of the identified risks is a pre-requisite for selection of an adequate Way of Risk Response, which, in its turn, determines the efficiency of the risk management process as a whole. At the same time, risk assessment is the most complicated risk management stage, which is mainly due to the uncertainty of the future. While realizing its responsibility and the task complexity the Company is seeking to:

- introduce the approaches based on the contemporary knowledge and developments to the risk assessment practice of the respective business areas;
- at the same time with the current risk assessment assess the potentially possible residual risk as compared to the consumption of the resources necessary for its occurrence;
- conduct risk assessment in view of their interrelation;
- assess risks from different perspectives, including at the level of the LUKOIL Group as a whole, across key areas of its activities, at the level of the subsidiaries, and in terms of different Risk Portfolios in order to determine the areas that require special attention;
- consider the possibility of different types of fraudulent activities as part of risk assessment;
- ensure additional control over correct assessment of major risks;
- employee training in the area of risk assessment.

9.5. The Way of Risk Response is determined based on the Current Risk assessment, tolerable costs for the LUKOIL Group entity on implementation of the possible measures on Risk Response, assessment of the Residual Risk and Acceptable Risk defined based on the Risk Appetite. The Company considers it necessary to examine all possible Ways of Risk Response excluding the obviously unacceptable ones. While selecting the most appropriate of the available Ways of Risk Response the following shall be taken into account:

- available options of impact both on the Risk Realization Probability and the consequences of its realization;

- the balance of costs and benefits associated with the alternative Risk Response;
- additional risks that may arise as a result of applying the chosen Way of Response to the Initial Risk and, accordingly, the need to organize the repeated procedure of Way of Risk Response before making the final decision, which takes into account the additional risks, including those that may be unobvious in the beginning of this process;
- resource allocation capabilities of the LUKOIL Group entity required for realizing the preferred Way of Risk Response to all identified major risks;
- chance to realize the Way of Risk Response under consideration within the time frame ensuring efficient management of this risk;
- compliance of the Residual Risk level, achieved as a result of realizing the contemplated Way of Risk Response with the Acceptable Risk level.

9.6. The Company considers control activities as an essential mechanism for managing the achievement of the set goals, ensuring proper and timely implementation of the selected major risk response methods of the LUKOIL Group entities. Control activities for the Company mean a continuous process carried out as part of the management cycle, which implies constant comparison (mapping) of what there is (the actual results) with what there must be (with the required/expected results). Control activities are aimed at mitigating risks to an acceptable level, including through the timely detection of deviations and violations in operations of the LUKOIL Group entities, and are usually registered. Formalization of the control activities is carried out by application of the Internal Control Procedures.

9.6.1. Developed and applied Internal Control Procedures shall meet the following basic requirements:

- be risk-oriented, aimed at urgent major risks;
- take into account the following task priority for the introduction of Internal Control Procedures: prevention of risk realization; reduction of the damage caused by risk realization; identification of the risks that have been realized;
- be capable of integrating into the existing and implemented management processes, and of being applied directly during their implementation;
- take into account the material relationships of the embedded and implemented Internal Control Procedures;
- collectively provide sufficient control of operations to achieve control objectives;
- take into account the organization-specific factors existing in the LUKOIL Group entities that may have a significant impact on the effectiveness of the applied Internal Control Procedures;
- provide registration of inspection results, specifically and unequivocally define the procedures to identify deviations and violations in the activities of the LUKOIL Group entities, including the procedure of informing the employees responsible for the implementation of corrective actions, and other stakeholders;
- give preference to automated operations, provided they are reliable enough.

The need to formalize control activities and the level of detail shall be determined by taking into account the urgency of the risks involved, including such characteristics as reproducibility and materiality.

Reassessment and update of the applicable Internal Control Procedures shall be carried out in a timely manner in accordance with the established criteria.

9.6.2. The Company considers it necessary to pay special attention to ensuring control over the technology infrastructure therefore delivering proper quality of the information used in the management and processed with the use of corresponding technologies.

9.6.3. The lack of the necessary Internal Control Procedures cannot be a reason for non-fulfillment of the necessary control actions in relation to the major risk for the detection of which the necessary information was in place, in particular such as new risks, which occur rarely or which are unique.

9.6.4. The lack of properly established necessary Internal Control Procedures, which caused the incurred damage, shall be considered by the Company in view of the current distribution of powers, duties and responsibilities in the LUKOIL Group entity as the basis for prosecution in accordance with the established procedure.

9.7. The Company believes it is impossible to have effective RM & ICS without perfectly organized work with information and well-functioning communications. The following Company's requirements in terms of information and communications shall be met:

9.7.1. As part of risk management and internal control processes all available data sources shall be used;

9.7.2. RM & ICS information resources ensure generation and provision of quality information. Qualitative information for the Company implies the following:

- available to those who require it to perform the assigned tasks;
- correct, which means that the data underlying the information are correct and complete;
- up-to-date, which means that data are collected from reliable sources and as often as necessary;
- secure - access to important information to pursue the interests of the LUKOIL Group entities is restricted to authorized personnel only;
- recoverable - information shall be available for a required period of time to be provided following legitimate inquiries and to be verified by external authorized parties;
- sufficient - the amount of the available information shall comply with the appropriate level of sufficiency to meet current information requirements. The information not used in the risk management and internal control processes shall be removed to eliminate information system inefficiency, misuse of information and/or incorrect interpretation;
- available – information shall be available on demand;
- reliable - information obtained from authorized sources shall be collected in accordance with the established procedures and shall reflect the events that actually took place;

- verifiable - information shall be verified by first hand sources, at the same time responsibility for the quality of information shall be properly defined in the LUKOIL Group entities.

9.7.3. With respect to the information received from the entities providing services to the LUKOIL Group entities in their interests, a quality assessment shall take place. If necessary, action is taken with regard to the Management of Risks associated with the possibility of obtaining low-quality information that is essential for the LUKOIL Group entity.

9.7.4. Information resources at RM & ICS take into account the need for specific information among certain user categories, as well as the need for consolidated information for managers and different level management of the LUKOIL Group entities.

9.7.5. Generation of information resources at RM & ICS shall be based on the correlation between the required costs and benefits provided by the specified resource.

9.7.6. In order to bring the necessary information to the stakeholders, effective channels of communication are created at RM & ICS.

9.7.7. The speed of information exchange at RM & ICS must comply with the rate of changes in the external and internal environment.

9.7.8. In separate, critical areas, additional channels of communication are created as a backup in case the major channels of information exchange fail to perform.

9.7.9. As part of the communication system, a procedure for informing the management and managers of the LUKOIL Group entities of any major violations and lack of control that have taken place as part of operations of the LUKOIL Group entities, shall be determined.

9.8. Assessment of the availability and readiness of all the above components required for effective Risk Management and robust Internal Control carried out by the Company as part of the specially organized Risk Management and Internal Control Monitoring.

9.8.1. Risk Management and Internal Control Monitoring are viewed by the Company as a necessary tool to maintain RM & ICS at the required efficiency and reliability level. The main requirements of the Company's Risk Management and Internal Control Monitoring include:

- organization and conduct of continuous and periodic assessments of RM & ICS performance, its subsystems and processes implemented by it in the combination to minimize the risks of untimely and incomplete identification of major and critical failures and drawbacks in RM & ICS;

- continuous and periodic assessments are selected and prepared taking into account the speed of changes in the external and internal (control) environment of the LUKOIL Group entity, its operations and organized its business processes;

- analysis of the results received following continuous and periodic assessments in order to identify the drawbacks in RM & ICS, their causes, as well as actual and / or potential consequences;

- incorporation of continuous assessments into business processes and their adjustment given the changing environment and risks;
- notifying the management and corresponding managers responsible for implementing corrective actions about the existing drawbacks in RM & ICS;
- organization of control with regard to the timeliness and completeness of the eliminated violations, deviations and deficiencies affecting RM & ICS performance.

9.8.2. Periodic evaluations are carried out by the Company in order to obtain the unbiased information about the reliability and efficiency of RM & ICS. The main tasks related to organization and conduct of periodic independent evaluations of RM & ICS in the Company are vested in the Internal Audit Service which is functionally subordinate to the Board of Directors of PJSC “LUKOIL”. The evaluation results of RM & ICS reliability and efficiency carried out by the Company’s Internal Audit Service are submitted to the Board of Directors and the President of PJSC “LUKOIL” for consideration, including on the basis of recommendations of the Company’s Internal Audit Service and solutions to improve and develop RM & ICS.