

APPROVED
By the Board of Directors of
Open Joint Stock Company "Oil Company "LUKOIL"
Minutes No. 11 of 24 May 2013

2012
LUKOIL
CORPORATE GOVERNANCE REPORT

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1. Compliance with Corporate Governance Code

As a Russian corporation OAO “LUKOIL” (hereinafter, LUKOIL or the Company) conducts its business in compliance with the Corporate Governance Code (hereinafter also - the Code) recommended in 2002 by the Federal Commission for the Securities Markets of Russia (FCSM) for application by the Russian joint stock companies. The Code is available at the web-site of the Federal Service for the Financial Markets of Russia (FSFM) at: http://www.fcsm.ru/ru/legislation/corp_management_study/corp_codex/.

The Code is a voluntary standard that includes multiple provisions covering various areas of business of a joint stock company. FSFM identified the most important provisions of the Code which must be observed by the issuers seeking a listing at Russian stock exchanges. LUKOIL fully complies with these requirements, and its shares and Rouble bonds are the blue chips (A1 level) of the Russian Stock Exchange MICEX. (CJSC MICEX SE, member of the Moscow Exchange Group). LUKOIL on a quarterly basis submits the reports on compliance with corporate governance standards to this stock exchange, and discloses its internal documents evidencing such compliance.

As regards the Code in general LUKOIL includes in its annual reports approved by the General Shareholders Meetings the detailed information on compliance with the Code using the form provided by the FSFM. At present LUKOIL is in full compliance with most of the Code's provisions; however, there is a number of exceptions. The main ones are the following:

The Company's Board of Directors (the Board) has three committees described below under [Board Committees](#). The Code recommends that a corporate conflicts resolution committee be created in a joint stock company in addition to such committees. The Company does not presently have such a committee. However, the Company does not exclude that such a committee may be set up in the future when there is a sufficient number of issues which the Code recommends to delegate to such committee. However, the Company has long had units in charge of shareholder and investor relations. The activities of such units are further described under [Shareholder Relations](#).

According to the Code recommendations, the structure and membership of the subdivision for internal control and internal audit shall be outlined in the document approved by the Board of Directors, while the above subdivision shall be independent of the executive bodies of the joint stock company. From 2012 on, internal control and internal audit were carried out by structural divisions of the Company subordinate to the Vice President for Control and Internal Audit. At the 2012 end they were integrated into the Service for Control and Internal Audit subordinate to the Vice President for Control and Internal Audit (see also [Internal Control and Internal Audit](#)). All material documents of the Company relating to internal control and internal audit are approved by the Board and subject to prior recommendations from the Audit Committee. The competence of the Audit Committee also includes efficiency assessment of the Company's internal control procedures and development of improvement proposals, and performance efficiency assessment of the Company's unit in charge of internal control and internal audit.

The Secretary of the Board who is also Vice President – OAO “LUKOIL” Chief of Staff and a member of the Company's Management Committee, acts as the corporate secretary of the Company. In the meantime, the majority of the organizational issues associated with preparation and procedures of the general shareholders meetings, review of shareholders' applications, contacts with the registrar, are handled by the unit which is in charge of shareholder relations. This unit has efficiently performed these functions since the first years of the Company's existence (see also [Shareholder Relations](#)).

Further, in certain respects the Company striving to apply the best international practices exceeds the requirements of the Code. In particular, the Code recommends that the number of independent directors be at least one fourth of the entire board. The Company annually assesses the

independence of the candidates to the Board of Directors in line with the Code, and in recent years more than half of the LUKOIL Board have been independent.

The Company has the Code of Business Conduct and Ethics of OAO “LUKOIL” which is a set of norms and rules of individual and collective behavior of the Company's employees. This document addresses, in particular, such issues as relations between Company's employees, relations with the business partners, shareholders, governmental agencies and public organizations, environmental issues, industrial safety and prevention of conflicts of interests. The Code of Business Conduct and Ethics is available at the Company's web-site at: http://www.lukoil.com/materials/doc/internal-documents/lukoil_corp_code_eng.pdf.

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

2. Board of Directors

The Board is responsible for general management of the Company's business except for the reserved matters of the General Shareholders Meeting.

The key functions of the Board include designation of the Company's priority areas of the Company's business, strategic, medium term and annual planning, assessment of performance results, preparation of the General Shareholders Meetings, formation of the Management Committee as a collective executive body, approval of transactions in accordance with the existing legislation and the Company Charter, and other matters.

The eleven-member Board is elected by the General Shareholders Meeting by cumulative voting (the candidates for whom the largest number of votes was cast are deemed elected).

The Company must include the election of the Board members in the agenda of the annual General Shareholders Meeting (see also [Shareholder Relations](#)). Nominations to the Board may be made by holders of at least 2% of the voting shares within 30 days from the end of the fiscal year.

The Board members are elected to serve until the next annual General Shareholders Meetings and may be re-elected any number of times.

The General Shareholders Meeting may early terminate the office of all Board members.

Fees and compensations to all Board members are established by the General Shareholders Meeting. In its annual reports the Company includes information on the aggregate fees and compensations received by the Board members during the year in question.

As regards the composition of the Board 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.

As of the approval date hereof the Board is comprised of the Chairman of the Board (who is a non-executive director), two executive directors (President of the Company and the First Executive Vice President), and six independent directors (based on the criteria of the Corporate Governance Code of the Russian FCSM) and two non-executive directors.

Details on the Company's Board members, including their vitae, are disclosed by the Company in its annual report.

The Board activities are based on the Board's Work Plan.

There is a number of matters reviewed by the Board on an annual basis in line with the Russian laws and the Company's customary practices:

- in January the Board pulls together the preliminary operational results of LUKOIL Group for the past year and sets the goals for the current year and short term goals, and in the course of this exercise it identifies the priority areas of business for the current year and performs a comparative review of the Company's operational performance for the recent years;
- in April the Board attends to the preparation of the General Shareholders Meeting, and, in particular, it designates the record date, approves the agenda, the text and the forms of voting ballots, performs a preliminary review of draft resolutions on the agenda items, and handles other organizational issues;
- at its meeting in May the Board issues a preliminary approval of the Annual Report of OAO "LUKOIL" for the past year which is then submitted to the General Shareholders Meeting for approval, and summarizes the results of its operations, hears the reports on the committees' annual performance and on execution of the Board's instructions, and assesses its own performance during the year;
- since 2011 the Board approves the OAO "LUKOIL" Corporate Governance Report in May;
- in June at its first meeting the newly elected Board elects the Chairman from among its members, and based on the recommendation of the Board Chairman appoints the Secretary of the Board and elects committee members;
- in July the Board forms the Management Committee of OAO "LUKOIL" and determines the key terms and conditions of contracts to be entered into with its members. In furtherance of the Federal Law On Joint Stock Companies the Board establishes the maximum remuneration of the Auditor of LUKOIL for the audit of the financial statements in line with the Russian standards for the current year; and at the same meeting approves the work plan of the Board for the period until the next annual General Shareholders Meeting;
- in August it summarizes the preliminary results of LUKOIL Group's business for the first six months of the year and reviews budget and investment programs performance in the current year;
- in November-December the Board sets the key parameters for the Medium Term Plan of LUKOIL Group for the period of 3 years;

Once every two years the Board approves the adjusted LUKOIL Group 10-year strategic development program (latest approved in December 2011).

In addition to the above issues in November, 2012 the Board of Directors decided on extraordinary General Meeting of Shareholders to approve payment of the interim dividends for the first time in the Company's history.

In 2012 the Board also approved a number of important documents to improve corporate governance:

- Regulations on the Performance Assessment of the Board of Directors of Open Joint Stock Company "Oil company "LUKOIL" (Minutes No. 7 as of April 16, 2012);
- Programme to Improve the Quality of Internal Audit at OAO "LUKOIL" for the period 2012-2016 (Minutes No. 3 as of February 3, 2012), as well as amendments hereto (Minutes No. 15 as of July 23, 2012);

- Regulations on Internal Audit Assessment at OAO “LUKOIL” (Minutes No. 3 as of February 3, 2012), as well as amendments hereto (Minutes No. 15 as of July 23, 2012);
- Internal Control Procedures (Minutes No. 12 as of June 25, 2012);
- Regulations on Long-Term Incentives for Employees of OAO “LUKOIL” and its subsidiaries in 2013-2017 (Minutes No. 24 as of December 4, 2012);

as well as updated the previously adopted documents by making respective amendments.

The Board also reviewed in more detail and developed an action plan for development of certain LUKOIL Group business units. This work was performed with a focus on the following issues:

- Development and outlooks for the European light petroleum product market. Supply logistics of light petroleum products by the LUKOIL Group to the European markets (Minutes No. 9 as of April 27, 2012);
- On international hydrocarbon production projects (Minutes No.10 as of May 25, 2012);
- On further development of the subsoil block at the Yaregskoye Field located in the Komi Republic (Minutes No.10 as of May 25, 2012);

To better familiarize the Board members with the regions of the Company's operation, the Company has introduced the practice of offsite Board meetings. In 2012 the meeting dedicated to the improvement of the light petroleum product supply logistics took place in Barcelona (Spain).

The procedure for convening and holding the meetings of the Board is governed by the LUKOIL Board Regulations.

The Board meetings may be held in person and by absentee voting/ballot. In 2012 the Board held 7 meetings in person and 19 meetings by ballot. To determine whether the quorum is present for the Board meeting to be held and for the purposes of determining the voting results, a written opinion of the absent Board members on the agenda matters received by the Secretary before the beginning of the meeting is taken into account. Thus, the Board member who has provided his or her written opinion before the start of the meeting is deemed to have taken part in the Board meeting.

Participation of Board of Directors members in in-person meetings of the Board of Directors and BoD Committees in 2012

	Board of Directors		Strategy and Investment Committee		Audit Committee		Human Resources and Compensation Committee	
	N	A	N	A	N	A	N	A
V.I. Grayfer	7 ^{Ch}	7						
V.Yu. Alekperov	7	7						
V.V. Blazheev	7	7			5 ^{Ch**}	4		
H.O. Gref *	3	3			3 ^{Ch*}	2		
I.S. Ivanov	7	7	4 ^{Ch}	4				
R.U. Maganov	7	6	4	2				
R. Matzke	7	7	4	4				
S.A. Mikhailov	7	7			5	5	3	3
M. Mobius	7	7	4	4			2 ^{Ch**}	2
G. Moscato	7	7	4	4			1 [*]	0
I. Pictet **	4	4			2 ^{**}	2		

A.N. Shokhin	7	6					3 ^{Ch*}	3
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N Number of in-person meetings arranged

A Actual number of in-person meetings attended by the Director

* before June 27, 2012

** from June 27, 2012

Ch Chairman

■ executive ■ non-executive ■ independent

In pursuance of the Human Resources and Compensation Committee recommendations, in 2010 the Board approved the performance evaluation criteria for the Board and its Committees, while the performance is assessed by interviewing the Board members. In 2012 the Board members assessed the Board's and the committees' performance based on the approved criteria. In May 2012 the Board summarized the performance assessment results and gave a favorable evaluation of its 2011 performance based on the said results.

The activities by the Board and its committees were supported in 2012 by the Office of OAO "LUKOIL" – responsible for preparation of the meetings of the Board and the Board committees, collection and preliminary analysis of the materials relating to the matters on the agenda of the meetings, their classification and preparation of the draft resolutions. Based on the proposals of the Board members and the Management Committee members, the employees of the Board Office prepared and submitted the work plans of the Board to the Board and the plans of the meetings of the Board committees to the Board committees for approval.

The employees of the Board Office procured that the reference materials required for passing of resolutions on the matters on the agenda were provided to the Board members and made sure the documents were translated into the English language, if required.

The Russian and the foreign members of the Board enjoy equal access to the Company's information. Simultaneous interpreting into English is provided at all meetings.

3. Board Committees

For the purposes of preliminary analysis of certain crucial issues and preparation of recommendations for the Board for passing of resolutions in respect of such matters, three Board committees have been established that act pursuant to the relevant committee regulations approved by Board. The Committee members are elected at the meeting of the new Board for the period until the next Board is elected by the General Shareholders Meeting. Information on the Committee structure is provided by the Company in its annual report.

The **Audit Committee** analyzes the efficiency of internal control and audit in LUKOIL and LUKOIL's financial statements. Among other things, it is responsible for nominating the Company's auditor, evaluating the auditor's opinion, evaluating the objectivity and independence of the Company's auditor.

The members of the Audit Committee are elected from among the non-executive directors. The Committee has at least three members. At least one member of the Committee must be an independent director.

In 2012 the Audit Committee held 5 meetings in person and 3 meetings by ballot; recommendations were given with regard to preliminary approval of the Company's 2011 Annual Report, as well as approval of the in-house documents of the Company on risk management and internal control and audit. The Committee also analyzed the Auditor's Report on OAO "LUKOIL" Financial Statements, developed recommendations on the selection of the Company's Auditor and its remuneration.

The **Human Resources and Compensation Committee** determines the policy and standards of selection of candidates for the Board members, Management Committee and the Company's President and prepares the preliminary evaluation of the nominated members of the Management Committee and the Company's President.

This Committee also provides recommendations for the Board of Directors on priority areas related to human resources and the remuneration of the Company's management bodies and the Audit Commission.

The members of the Human Resources and Compensation Committee are elected from among the non-executive directors. The Committee has at least three members. At least one member of the Committee must be an independent director.

In 2012 the Human Resources and Compensation Committee held 3 meetings in person and 3 meetings by ballot. The Committee provided the Board with the recommendations with regard to the size and membership of the Company's Management Committee, principal terms and conditions of the agreements with the Management Committee members, the remuneration of the Board members and the Audit Commission, approval of the local regulations on long-term incentives as well as the other issues within the scope of the Committee's competence.

The **Strategy and Investment Committee** prepares proposals for the Board to establish priorities in the Company's activities and develop the Company's long-term development strategy.

It is responsible, among other things, for preparation of recommendations for the Board regarding the amount of dividend to be paid on the shares and the procedure for payment thereof.

A minimum of three Board members are elected as the members of the Strategy and Investment Committee. At least one member of the Committee must be an independent director.

In 2012 the Strategy and Investment Committee held 4 meetings in person and 1 meeting by ballot. The Committee considered the vital issues of the Company's strategic development, provided recommendations as to allocation of profit, the amount of annual dividends, as well as that of the interim dividends - for the first time in the Company's history.

4. President and the Management Committee

The President is appointed by the General Shareholders Meeting for a five-year term and also serves as the Chairman of the Management Committee. The President is responsible for the day-to-day management of the Company and acts within his/her scope of responsibility, as determined by LUKOIL's Charter. V. Yu. Alekperov was appointed Company's President in 2011 by the Annual General Meeting of Shareholders.

The Management Committee chaired by the Chairman of the Management Committee is an executive body of the Company responsible for the Company's day-to-day management.

The members of the Management Committee are appointed annually by the Board. Within one month following election of the Board by the General Shareholders Meeting, the Company's President submits to the Board for approval a proposal concerning the number of the Management Committee members and the nominated persons. The Board may decline specific Management Committee nominees, but may only approve those members of the Management Committee which have been nominated by the President.

The term of office of the Management Committee members runs from the time of their approval by the Board and until the Board has approved the new members of the Management Committee. Any member of the Management Committee may, at any time, be dismissed by the Board upon the President's proposal. The President may in the course of the year nominate other members of the Management Committee for the Board approval.

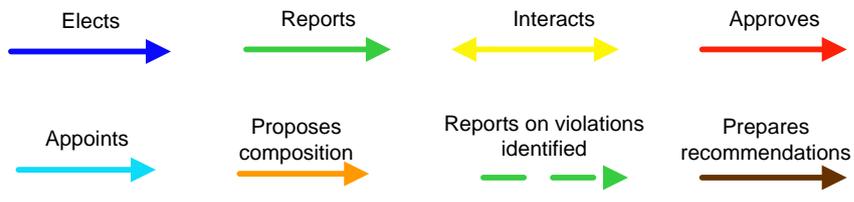
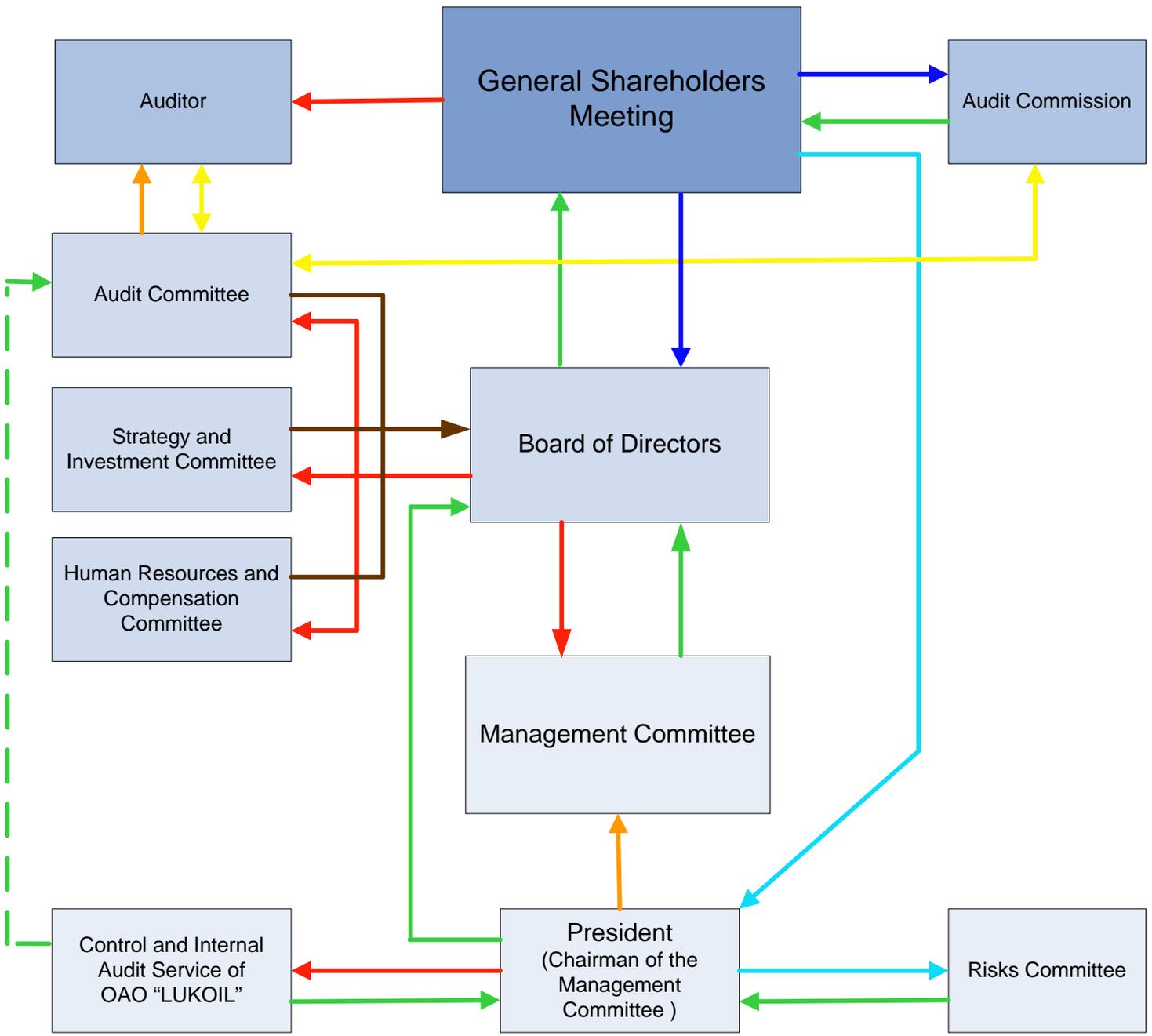
The President convenes the Management Committee meetings as required. As a rule, they are held on a weekly basis. The agenda of the Management Committee meeting is determined by the President, including on the basis of the agenda proposals submitted by the Management Committee members.

The Management Committee's competence is set forth in the Company's Charter.

The principal terms and conditions of the contracts entered into with the President and the Management Committee members are determined by the Board. For this purpose, the votes of the Board members who are also the President and/or the members of the Company's Management Committee are disregarded.

In its annual reports the Company includes information on the aggregate fees and compensations received by the Management Committee members during the year in question.

OAO "LUKOIL" Corporate Governance Structure



5. Audit Commission

The Audit Commission audits the accuracy of LUKOIL's financial statements in accordance with the Russian laws and generally controls the Company's financial and business activities. The members of the Audit Commission are elected on an annual basis at each Annual General Shareholders Meeting to serve until the next General Shareholders Meeting. The Commission has three members. The General Shareholders Meeting may early terminate the office of all or any of the Audit Commission members.

A shareholder or any person nominated by a shareholder may be member of the Audit Commission. A member of the Audit Commission may not concurrently serve on the Board or the Management Committee or be the Company's President.

The remuneration payable to the members of the Audit Commission is approved by the General Shareholders Meeting.

The Audit Commission may require that an extraordinary General Shareholders Meeting be convened and may at any time audit the Company's financial and business operations. In addition, the Audit Commission must conduct an audit pursuant to a resolution of the General Shareholders Meeting, the Board or on request of any shareholder (shareholders) holding in the aggregate at least 10% of the Company's voting stock.

6. Preparation of Financial Statements

LUKOIL regularly prepares and discloses US GAAP annual and interim consolidated financial statements (see also [Shareholder Relations](#)).

In addition, OAO "LUKOIL", as a Russian company, and its Russian subsidiaries prepare financial statements in accordance with the Russian Accounting Standards ("RAS").

The Company implements various internal controls at all stages of the accounting process and preparation of its consolidated financial statements. Such practice ensures accuracy of the published financials and the information on which Company's management relies. The key internal controls and procedure of the Company include the following.

Distribution of Authority and Responsibility

Preparation of US GAAP consolidated financial statements is challenging since the majority of Russian companies in the LUKOIL Group (hereinafter - the Group) do not themselves prepare the US GAAP statements. Such Group companies prepare RAS financial statements, whereas such RAS statements are converted to US GAAP on a centralized basis by LUKOIL's Accounting Service. Certain Russian and foreign subsidiaries do prepare the US GAAP statements which are used for the purposes of consolidated financial statements.

At all stages of preparation of the financial statements (for individual subsidiaries and consolidated statements), the responsibilities in the LUKOIL Group are clearly delineated:

LUKOIL Group companies	Financial Statements	Responsibility
Russian companies that prepare RAS and US GAAP statements themselves	RAS	CEO, Chief Accountant
	US GAAP	CEO, Chief Accountant
Russian companies that prepare RAS statements themselves but do not prepare US GAAP statements themselves	RAS	CEO, Chief Accountant
	US GAAP	OAO "LUKOIL" Accounting Service
Russian companies that do not prepare RAS and US GAAP statements themselves and are serviced by the Regional Accounting Centres	RAS	CEO, Head of Regional Accounting Centre
	US GAAP	OAO "LUKOIL" Accounting Service
Foreign companies	US GAAP	CEO, Chief Accountant
OAO "LUKOIL"	US GAAP, consolidated	OAO "LUKOIL" President, Vice President, Chief Accountant of OAO "LUKOIL"

We believe that such distribution of responsibilities ensures the adequate accuracy of the financial and operational data used.

Disclosure of Consolidated Financial Statements. The Company discloses its consolidated financial statements on a quarterly basis. Interim consolidated financial statements of the Group and the Auditor's Reviews are disclosed annually as of March 31, June 30 and September 30. Audited annual financial statements and additional information about oil and gas production are disclosed annually as of December 31. The Company publishes both the interim and annual financial statements along with its MD&As.

There is a tendency observed towards successive reporting term reduction. Currently the Company publishes its interim consolidated financial statements not later than two months after the end of the reporting period.

Internal Audits. The Company has an Internal Control and Audit Service (see also [Internal Control and Internal Audit](#)) which, among other things, audits the accuracy of the financial statements of LUKOIL Group companies. Further, the **Company's Accounting Service has its own procedures** ensuring additional control over adequate preparation of the financial statements by the subsidiaries. Such procedures include:

- field inspections with a view to confirming that the financial statements of the Group companies are correct and accurate;
- regular advice to the Group companies on accounting issues (RAS and US GAAP), attention to complicated accounting issues. Annual field workshops for the accountants of the Group companies at which the Company's approved application practices of certain standards (including newly adopted) are communicated to them;
- the Company's Accounting Service has developed review and reconciliation procedures for various items of financial statements of the Group companies, and it controls the accuracy of the Group companies' financial statements (under RAS and US GAAP);
- with a view to minimizing the human factor effect the supplied financial and performance data is rechecked, both for individual Group companies and at the consolidated level.

Interaction between the units. Preparation of consolidated US GAAP statements requires cooperation between the Department for International Accounting of OAO "LUKOIL" and various units in the Company itself and the Group companies. A regular exchange and additional review of

information form part of such cooperation. The factual data prepared by the Accounting Service is also used by various units of the Company for purposes of adjusting the preliminary operating results and determining the key operational parameters for the Group's subsidiaries and other goals.

The staff of the Accounting Service together with the staff of the Service for Control and Internal Audit, as well as those of the other Company's units and its subsidiaries are involved in the activities of the audit commissions of the subsidiaries. This ensures additional control by the Company's Accounting Service over the accuracy of information supplied by the subsidiaries.

Unified Accounting Policy of the Group. The Company has the US GAAP accounting policy approved by the Management Committee. The US GAAP accounting policy is reviewed at least once a year; the amendments are made by the order of OAO "LUKOIL". Adoption of a new accounting policy requires its approval by the Company's Management Committee. The US GAAP accounting policy is binding on all LUKOIL Group companies that prepare independent US GAAP statements.

Since the Company itself and its major subsidiaries are domiciled in Russia, the President annually approves the RAS accounting policy which is applied internally, and the requirements towards the accounting policies of the Russian subsidiaries of the Company.

The centralized development of the accounting policies (under RAS and US GAAP) ensures unified principles of accounting and reporting similar transactions, and facilitates the comparability of subsidiaries and affiliates' performance.

Centralized Decision-Making Process. The Company has a system in place that ensures centralized decision-making where necessary and delegation of powers to optimize the Group management processes. The same applies to the accounting services of the Group. Centralized decision-making process of the Group applies to the following accounting related matters:

- organization of the accounting processes in subsidiaries (a subsidiary may maintain its accounts independently or have them maintained by a specialized subsidiary);
- auditor selection matters (for significant subsidiaries of the Group);
- timeline for preparation of annual and quarterly statements of the Group companies, due date for the audit of the financial statements;
- RAS and US GAAP accounting policies;
- appointment of subsidiaries' chief accountants;
- automation of accounting processes.

Employee training. All employees of the Company's Accounting Service engaged in preparation of US GAAP consolidated financial statements have a degree in accounting or finance. Many of them are certified accountants (under Russian and international standards) and are members of the professional accounting societies in Russia, UK and USA. Some employees have academic degrees in accounting and finance.

The Company is striving to provide additional training to its Accounting Service employees. Employees involved in the preparation of the US GAAP consolidated financial statements regularly receive advanced training, sponsored both by the Company that organizes training and workshops, and on their own.

7. External Audit

The auditor of the Company's RAS statements is annually approved by the General Shareholders Meeting as required by the Russian laws. In the course of preparations to the annual General Shareholders Meeting the Audit Committee of the Board makes a nomination of the recommended auditor to be subsequently approved by the General Shareholders Meeting.

When entering into an agreement with the auditor of its US GAAP consolidated financial statements the Company's management also works from a recommendation made by the Audit Committee.

To ensure enhanced control over the business of the Group companies and higher accuracy of the information received the auditor of the financial statements of the significant Group companies (under RAS – for major Russian Group companies; under US GAAP – for major foreign Group companies) is now the same auditor as the auditor of the Company's US GAAP consolidated financial statements.

The Company's auditor is independent. The auditor's independence is determined by the generally accepted US auditing standards and internal control procedures of the auditor itself.

In order to maintain its independence and pursuant to the audit standards the Company's auditor regularly replaces the main audit partner at least once every seven years. The audit partner was last replaced five years ago.

The scope of advisory and other non-audit services performed by our auditor is insignificant as compared to the scope and fees for the work related to the audit of financial statements of LUKOIL Group companies.

8. Internal Control and Internal Audit

The Company has in place a system of internal controls and internal audit designed to protect the interests and rights of the Company shareholders, safekeeping of the Company's assets by preventing, tracing and eliminating the cases of violation of the applicable requirements and their reasons.

The key documents setting forth the structure, purpose, parties involved and functions of the system of internal controls of the Company are the Regulations on Internal Control and Internal Audit at OAO “LUKOIL” and the Regulations on the organisation and conduct of control and audit reviews at OAO “LUKOIL” approved by the Board of Directors of OAO “LUKOIL”.

The following participants are involved in the control functions at various levels as part of the internal control systems:

- Board and its Audit Committee,
- the President of the Company,
- Control and Internal Audit Service of OAO "LUKOIL",
- specialized control and internal audit units of LUKOIL Group companies,
- structural units of LUKOIL,
- Audit commissions of LUKOIL Group companies.

The internal control system embraces the LUKOIL Group companies and their structural subdivisions.

The Board of Directors of OAO “LUKOIL” approves and amends the key internal documents of the Company (if applicable) regulating the internal control activities, including the internal control rules, methods and procedures, as well as the criteria and procedures for internal control system efficiency assessment.

The Audit Committee of the Board of Directors is responsible for efficiency assessment of the Control and Internal Audit Service. The Committee also considers the draft in-house documents relating to internal control and audit prior to their approval by the Board of Directors and provides recommendations as to their approval. Three meetings of the Audit Committee dedicated to

consideration of the above draft documents were held in 2012; subsequently they were recommended to the Board of Directors for approval based on the meeting outcomes.

The Control and Internal Audit Service is a structural subdivision of OAO "LUKOIL" responsible for impartial and independent control of the financial and economic activities of the LUKOIL Group companies. Control and audit of the performance of all the bodies involved in the control (other than Company's President, the Audit Committee and the Board) are among its key tasks. The Control and Internal Audit Service also develops the internal control procedures to be approved by the Board of Directors, applies the approved procedures to its practical activities and ensures their consistent application on the part of the above bodies involved in internal control. It exercises functional control over the activities of the special units for control and internal audit of LUKOIL Group companies and coordinates the control activities of other bodies involved in internal control (other than the Board, the Audit Committee and the President).

The Vice President for Control and Internal Audit also acts as the Head of the Control and Internal Audit Service. He reports directly to the Company's President covering all issues of its activities. He is also a member of the Management Committee.

Based on his performance results, the Vice President for Control and Internal Audit informs the President and, on the President's instruction, the management bodies and structural units of LUKOIL on any identified material violations in the operations of the Group companies, the reasons and circumstances of such violations and the proposed remedies. He also reports on the violations identified to the Audit Committee of OAO "LUKOIL" Board.

The Vice President for Control and Internal Audit reports annually on the state of the internal control and internal audit system in the LUKOIL Group companies at a meeting of the Audit Committee of OAO "LUKOIL" Board and subsequently at an OAO "LUKOIL" Board meeting.

The specialized control and internal audit units of the LUKOIL Group companies fulfill their functions in view of the work plans agreed upon by the Vice President for Control and Internal Audit of OAO "LUKOIL", which allows them to coordinate their control and auditing activities, ensure that the risk-oriented approach to planning of controls and audits is used.

Internal control and audit cover all areas of the Company's business, including: LUKOIL Group's compliance with the laws of the jurisdictions in which the LUKOIL Group companies conduct their business; implementation of resolutions of the Company's management bodies and its local regulations; procuring safekeeping of assets (property) of the LUKOIL Group companies and their efficient use, ensuring accuracy of managerial reporting and financial statements.

Internal control of finance operations is implemented at all levels of document processing, from source documents to financial (accounting) statements. In addition, the Control and Internal Audit Service on a regular basis monitors compliance of LUKOIL Group companies with the requirements of the applicable laws, accounting policies and other local regulations of the Company relating to financial reporting.

The audit commissions of the Russian companies of LUKOIL Group audit annually the financial (accounting) statements before submitting the same to the general shareholders (members) meetings. The Control and Internal Audit Service coordinates and exercises control over the activities of the audit commissions.

The control and internal audit programs and procedures implemented by the Company are fairly efficient, but the Company is constantly striving to improve them.

For the purpose of internal audit quality assessment the LUKOIL Board approved the Regulations on Assessment of Internal Audit at OAO "LUKOIL" in February 2012. The above document is developed in line with the Programme to Improve the Quality of Internal Audit at OAO "LUKOIL" for the period of 2012-2016 and the requirements of the International Standards for the Professional Practice of Internal Auditing.

In 2012 the Board also approved other internal control and internal audit regulating documents (see also [Board of Directors](#)).

The controls and audits reveal the current state of the internal control systems of the LUKOIL Group companies, trace their functional drawbacks and help develop measures to eliminate them.

The specialized control and internal audit units of the Company and its subsidiaries exercise monitoring of the measures taken by the LUKOIL Group companies to eliminate the revealed violations and drawbacks.

The Company believes that the existing internal regulations, approved methods and procedures of internal control, operating specialized units for control and internal audit, prompt remedial actions in relation to the identified violations and deficiencies indicate that the Company has an efficient system of internal controls and audits in place.

9. Risk Management

The Company's Management pays great attention to the risk management issues in order to ensure reasonable achievement of the set goals and retain the Company's position on the industry-specific and financial markets.

The Company's risk management practices primarily focus on mitigation of key risks, including the risk of loss, the risk of failure to achieve the targets, and the risk of other substantial adverse factors.

The Audit Committee of the Board is empowered, to the extent of its functions, to assess the Company's risk management and to issue the relevant recommendations to the Company's Board.

The Audit Committee submits annual performance reports to the Board which, among other things, include proposals on the improvement of the risk management system.

The Company seeks to actively promote risk management and currently focuses on establishment of the enterprise-wide risk management system (ERM) in line with the global best practices.

In line with the OAO "LUKOIL" Risk Management Policy, regulatory risk management documents were approved in 2012 outlining the uniform risk management procedure for all LUKOIL Group companies:

- Procedure for Risk Identification, Assessment, Selection of Ways of Risk Response and Risk Monitoring;
- Methodology for Risk Identification, Description and Assessment of LUKOIL Group companies.

The Company has established the Risk Committee that is a collegial body for risk management under the President of OAO "LUKOIL".

The managers of the Company's key business segments manage the risks in accordance with the existing corporate requirements; the existing risks are assessed on a regular basis, while the risk-related information is included into the OAO "LUKOIL" periodic reporting documents.

10. Shareholder Relations

The Company annually holds the annual General Shareholders Meeting which pursuant to the Russian laws must be held not earlier than two months and not later than six months after the end of the fiscal year.

The agenda of the annual General Meeting must include the election of members of the Board and the Audit Commission; the approval of the Company's Auditor; the approval of the annual report, annual financial statements, including the profit and loss statement of the Company; the distribution of profit and loss based on the results of the financial year, including dividend distribution. The

annual General Shareholders Meeting may pass resolutions on any other matters within its competence.

Proposals to the agenda of the General Shareholders Meeting and nominations to the Board, the Audit Commission and the Counting Commission of the Company, and the position of the Company's President may be made by the holders in aggregate of at least 2 percent of the voting shares of the Company within 30 days from the end of the fiscal year. In addition to the matters proposed to be included in the agenda by shareholders, and in the absence of such proposals, in the absence or lack of nominations made by shareholders to form the relevant body of the Company the Board may expand the agenda and make nominations at its own discretion. The Company's Charter identifies the matters in respect of which a decision may only be adopted by the General Meeting on the Board's submission.

The annual General Shareholders Meeting is generally held in the form of joint attendance of shareholders, with preliminary distribution (dispatch) of ballots before the conduct of the meeting (in a combined form), enabling the shareholders to personally attend and vote at the meeting or to mail completed voting ballots.

In addition to the annual general meetings the Company can also hold extraordinary general meetings. Such meetings shall be held by virtue of the decision of the Company's Board at its own initiative, the request by the Audit Commission, the Company's Auditor and the shareholders (shareholder), who hold in aggregate at least 10 percent of the voting shares of the Company.

On December 18, 2012, at the initiative of the Board of Directors of OAO "LUKOIL" the Company held the Extraordinary General Shareholders Meeting in the form of absentee voting/ballot. A decision was made during this meeting to pay interim dividends on ordinary shares.

To facilitate the shareholders' access to the materials for the meeting such materials (including the annual report prepared in accordance with the FSFM's requirements) are posted on the Company's web-site in Russian and in English. In preparation for the General Shareholders Meeting the Company grants equal access to information for Russian and non-Russian shareholders, including the holders of depositary receipts.

The Company considers its relations with all categories of shareholders equally important. These functions are performed by the Investor Relations Department which maintains relations with both institutional and individual shareholders.

The Company seeks to promptly inform its shareholders and other stakeholders about any developments in its business.

OAO "LUKOIL" regularly discloses its US GAAP consolidated financial statements and publishes MD&As (see also [Preparation of Financial Statements](#)). Disclosure of financial statements is generally accompanied by a presentation by senior managers of the Company and executives of the Accounting Service directly involved in the preparation thereof. Such presentations are broadcasted on the Company's web-site, with questions to the participants of the presentation taken, inter alia, via the Internet.

The Company has a special compliance office in charge of procuring compliance with the disclosure requirements of the Russian and applicable international laws. All information required to be disclosed is posted on the Company's web-sites in Russian and in English.

Along with disclosure of the documents compliant with the mandatory requirements of the regulatory authorities, the Company annually releases and publishes on its website Analyst Databooks and LUKOIL Fact Books. These books provide summary information about the Company for a 5-year period. The former book contains numerical information in the form of tables and diagrams and the latter contains more data of descriptive and historical nature. The Company also biannually prepares a Sustainable Development Report in the Russian Federation.

The Company's representatives also take part in conferences and other events arranged for institutional investors and analysts. In 2012 the Company arranged an on-site visit for its investors to the Group's industrial facilities located in Astrakhan and Volgograd. Over 50 investment funds analysts and representatives took part in the trip.

Information on various aspects of the Company's business is also distributed through the press service.

As a result of 1990s privatization of the Company and the companies which subsequently became its subsidiaries a large number of individual minority holders residing in all constituent entities of the Russian Federation have been entered in the shareholder register of LUKOIL. The Investor Relations Department, inter alia, interacts with such minority shareholders and, in particular, advises them on exercise of their shareholder rights and stock exchange trading and provides the necessary information regarding the Company and relations with its registrar.

The Company's Charter, the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting, the Regulations on the Board, and other important regulations of the Company are available on its web-site http://www.lukoil.com/static_6_5id_2101_.html.