

Appendix No.5 to Minutes No.23
of the Meeting of the Board of
'LUHFWRUV RI 3-6 & 3/8.2,/
28 October 2016

RISK MANAGEMENT AND
INTERNAL CONTROL POLICY
OF 3-6 & 3/8.2,/'

1. General Provisions

1.1. This Risk Management and Internal Control Policy of

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. Unlike Risk Appetite, Acceptable Risk applies to specific goals and is measured

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 defined in accordance with the established order that is reasonably acceptable as part of the activities of the

posing threats to the goals, and subsequent response to the identified major risks through 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 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

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

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 the LUKOIL Group, applicable requirements and recommendations is ensured through the RM & ICS arrangement and development within the LUKOIL Group entities that would comprise two 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:

- í strategic goals;
- í operating goals including the goals to ensure efficient financial and economic activities and efficient use of resources;
- í goals to ensure asset safety;
- í goals to ensure compliance of all forms of statements, including accounting (financial), statistical and management statements with the set requirements;
- í 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

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;

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

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

There are the following RM & ICS participants (subjects)

8.1. Board of Directors of PJSC LUKOIL:

í determines company-wide principles and approaches to RM & ICS

í determines the Risk Appetite; the Risk Management and Internal Control program is approved;

í 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.

í 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:

- 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 established by PJSC LUKOIL and related to legislative requirements, as well as ethical norms, rules and procedures, stock exchange requirements;

- ensures compliance of PJSC LUKOIL with the Board of Directors related to the approved local regulations on RM & ICS issues.

8.3. President of PJSC LUKOIL:

í ensures development and efficient performance of RM & ICS;

í exercises control over RM & ICS efficiency, as well as over accomplishment of the set tasks aimed at its improvement and development;

- development and updating of local regulations setting major principles, rules and
PHWKRGRORJ\ RI WKH 35LVN 0DQDJHPHQW' DQG 3, Q

-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.

9.3. Risks are identified as part of the event forecasting process that may occur in

- the balance of costs and benefits associated with the alternative Risk Response;
- additional risks that may arise as a result of applying the chosen Risk 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

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 IROORZLQJ & RPSDQ\TV UHTXLUHPHQWV LQ WHUPV be met:

9.7.1. As part of risk management and internal control processes 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 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.

- incorporation of continuous assessments into business processes and the 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 3 - 6 & 3 / 8 . 2 , / ' .