

APPROVED
By the Board of Directors of
Public Joint Stock Company «Oil Company «LUKOIL»
Minutes No 8 of 13 May 2016

2015
LUKOIL CORPORATE GOVERNANCE REPORT

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1. Compliance with the Corporate Governance Code

As a Russian corporation PJSC LUKOIL (hereinafter, LUKOIL or the Company) conducts its business in compliance with the national corporate governance principles recommended for application by the regulatory authorities for the RF securities markets. The Company also seeks to apply the principles of the international best practice.

In 2014 the Board of Directors of the Bank of Russia approved the Corporate Governance Code (hereinafter, the Code) that was recommended for application by the joint stock companies whose securities are admitted to organized trading. The Code was developed to achieve greater harmonization of the Russian corporate governance principles with the advanced corporate governance standards of other countries, which should facilitate the access to borrowed funds, attract investors and expand the possibilities of international business cooperation for the Russian companies. The above document is available on the website of the Bank of Russia at: http://www.cbr.ru/sbrfr/files/legislation/letters/2014/Inf_apr_1014.pdf.

Along with the advisory principles of the Code, the Russian stock exchange where the Company's securities are traded (ZAO MICEX Stock Exchange, member of the Moscow Exchange stock holding), sets out a number of minimum requirements to the corporate governance binding upon the issuers whose securities are included into quotation lists of a certain level. This list of requirements is part of the ZAO MICEX Stock Exchange Listing Rules (hereinafter, the Listing Rules) and in essence contains the most important provisions of the Code. It was originally defined after the listing reform that was taking place along with the Code development and was completed in 2014. These requirements shall come into effect with a suspension period, in other words the issuers are granted a transitional period during which they should bring their corporate governance structure and procedures in line with the requirements of the listing level they were transferred to, while quotation lists were being developed as the new Listing Rules came into effect.

The situation for the Russian issuers, including the Company, is somewhat complicated by the fact that the activities aimed at Code development and introduction of new Listing Rules were not fully synchronized, which resulted in some discrepancies between the Code provisions and the requirements to the corporate governance contained in the Listing Rules.

At the beginning of 2015 the Bank of Russia initiated a harmonization process of the Listing Rules and the Code, which resulted in the introduction of amendments to the applicable Listing Rules; in which case the effective dates of certain issuer-related requirements of the Listing Rules also were changed.

Today there is a discrepancy between the independence criteria for directors in the Code and the Listing Rules; for this reason the Company separately considers the independence of directors in terms of the Code and in terms of the Listing Rules. There are also discrepancies in terms of the minimum number of independent directors to make up the Board of Directors according to the Listing Rules and the Code recommendations.

The Corporate Governance Code constitutes a rather detailed document and is significantly more voluminous than similar documents of other countries. Its principles and recommendations apply not only to the BoD activities, its establishment procedure, the structure and relations with the management and shareholders, but also to the activities of the corporate secretary, the General Meeting procedures, the risk management and internal control system, information disclosure, conduct of material corporate actions, including recommendations for the contents of a number of internal documents. Based on the opinion expressed by the representatives of the Bank of Russia during the meetings with the issuers, the Company does not exclude the possibility that certain provisions of the Code may be amended based on the analysis results of their practical application by the Russian public companies.

Today the BoD can state that practically all basic principles of the Code (i. e., the Code principles under two-digit numbers), are complied with by the Company, except for the principle that the Company does not have a position of the Corporate Secretary. At the same time, these functions, according to the previous BoD decision were assigned to the BoD Secretary, who is annually appointed by the BoD for its tenure period. Some functions that according to the Code recommendations should be performed by the Corporate Secretary, are quite efficiently performed by other Company's structural subdivisions according to the well-established corporate practice.

Amendments were made to the Company's Charter at the end of 2015, according to which the BoD was granted additional powers to decide on appointment and dismissal of the Company's Corporate Secretary, determination of the remuneration amount and awarding principles of the Corporate Secretary, as well as approval of the Provision on the Company's Corporate Secretary, which in future will enable the Company to ensure greater compliance with this basic principle of the Code.

Along with the basic principles, Part A of the Code contains the second level principles, while Part B contains the recommendations related to corporate governance principles.

Today there are certain deviations from the second level principles of the Code in the corporate governance principles, for instance:

Chairman of the Board is a non-executive director; furthermore, senior independent director was not defined among the independent directors;

The Audit Committee and HR and Compensation (the latter acting as both HR and Nomination Committees) Committee are made up of independent and non-executive directors, with directors who fully meet the independence criteria set forth in the Code not constituting a majority in the reporting year (see also [Board Committees](#) section). At the same time, in the Audit Committee, however, directors who met the independence criteria of the MICEX Listing Rules constituted a majority as at the end of 2015, and, since January 2016, most members of the Audit Committee fully comply with the independence criteria set by the Code. Chairmen of both Committees are independent directors;

in the reporting year, the Company had a business unit responsible for internal audit, with no separation for functional and administrative subordination; this unit was functionally and administratively reporting to the Company's President. However, in 2015, the Company's Charter was amended to vest with the Board of Directors decision-making on appointment and dismissal of the head of the Company's internal audit unit accountable to the Company's Board of Directors; approving the internal audit policy (Regulations on Internal Audit) and other local regulations on internal audit, and action plans and the budget of the internal audit unit; and reviewing action plan and internal audit progress reports;

the Company's Charter does not lay down any list of material (as defined by the principles and recommendations of the Code) corporate actions that would be subject to special consideration and approval rules, with such list providing for additional procedures, restrictions and obligations exceeding the requirements of laws currently in effect.

Therefore, in 2015 and in the beginning of 2016 the Company implemented measures aimed at ensuring greater compliance with the Code principles.

The reform of the Company's internal audit system became one of such measures as part of which the internal audit functions were separated from those of internal control and risk management. The Internal Audit Service functionally subordinate to the BoD was established. The BoD also resolved to appoint Head of the Internal Audit Service (also see [Internal Control and Internal Audit](#) section).

Regulations on the Audit Committee of the Board of Directors of PJSC LUKOIL were approved in early 2016. The new regulations bring the Committee's functions and tasks in line with the requirements of the MICEX Listing Rules and recommendations of the Code. In the short term, the Company is planning to approve new Regulations on the HR and Compensation Committee of the Board of Directors of PJSC LUKOIL.

According to the Code recommendations the period for the shareholders to make proposals to the agenda of the annual General Shareholders Meeting was extended from 30 days provided for by the legislation to 60 days after the preceding year end.

The **Corporate Governance** section of the Annual Report describes the most significant aspects of PJSC LUKOIL's corporate governance model and practice.

Currently the Company has a considerable potential to improve and systematize the corporate governance system in order to ensure its greater transparency.

Considering the fact that Part A of the Code contains the corporate governance principles, while Part B contains the recommendations related to the principles describing preferred ways to realize these principles at the level of particular actions of the governance bodies, corporate procedures and the content of local regulations, first of all, the Company's Board will focus its primary attention on compliance with the principles of the Code described in Part A.

The Company also considers the fact that after Code development and enactment that took place in 2013–2014, certain changes took and are still taking place in the financial and economic environment, have been and are being introduced to the Russian corporate legislation.

In a situation when certain Code recommendations provide for enactment of additional restrictions and liabilities different from those provided for by the applicable legislation as related to the material corporate actions and for their inclusion into internal documents, the Company shall assess its possible legal risks and choose between fulfillment of the respective recommendations and strict compliance with the legislative requirements in view of the assessment results.

The Company will also be guided by those of the Code's numerous principles and recommendations that will be directly incorporated into the issuer requirements set forth by the Russian stock exchanges' listing rules as a prerequisite for admission of securities to the highest level quotation list. The Company believes that the investor community is likely to focus on compliance with such corporate governance requirements, and that their applicability is proven in practice by major Russian companies.

Going forward, implementation of the principles and recommendations set forth in the Code will be subject to the Company's assessment of the positive impact they may have on its growth strategy, economic performance and efficiency of its governance bodies' decision-making, along with LUKOIL's investment case. The Company will also closely watch its organizational and management profile, changes in the membership of its Board of Directors and in its shareholder structure, the effective organizational structure and distribution of authorities among its key officers. The Company includes its detailed report on compliance with the Code principles and recommendations in the form recommended by the Bank of Russia in its Annual Report.

2. Board of Directors

The Board is responsible for general governance 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's Charter, and other matters.

The eleven-member Board is elected at the General Shareholders Meeting by cumulative voting (the candidates for whom the largest number of votes is 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](#) section). Nominations to the Board may be made by holders of at least 2% of the voting shares within the period that until 2016 was equal to 30 days after the end of the fiscal year at the most, while starting from 2016 it is equal to 60 days after the previous year end at the most.

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 terminate the office of all Board members early.

As the new BoD was elected in 2015, Mark Mobius wasn't nominated as a candidate, while Roger Munnings became independent BoD member for the first time.

Fees to all Board members are established by the General Shareholders Meeting. The system of fixed remuneration is applied in the Company.

The current remuneration system provides for:

- remuneration for the performance of BoD member duties (equal for all BoD members);
- remuneration for the performance of duties of the Chairman of the Board of Directors;
- remuneration for the performance of duties of the Chairman of a BoD Committee by a BoD member;
- remuneration for the attendance at meetings of a BoD Committee in presentia to the member of the Board of Directors who is also member of the Committee;
- remuneration for the attendance at meetings of the Board of Directors or a Board Committee in presentia, if attendance requires a transcontinental flight;
- remuneration for the participation of BoD members in conferences and other events following written instructions by the Chairman of the Board of Directors.

The remuneration shall be paid in Russian rubles.

The Annual General Shareholders Meeting held in 2015 resolved to maintain the remuneration level for newly elected BoD members, determined during the Annual General Shareholders Meeting in 2014.

The list of expenses incurred by BoD members to be reimbursed shall be determined by virtue of the decision of the General Shareholders Meeting. The expenses shall be reimbursed in the amount of the actually incurred and documented expenses.

Information on the aggregate fees and compensations received by the Board members during the year in question is included in the annual report.

Currently non-executive directors do not participate in any long-term remuneration programs.

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.

In 2015 the independence of candidates to the BoD was assessed in view of the criteria of the Corporate Governance Code, as well as the independence criteria of the Listing Rules (also see

Compliance with the Corporate Governance Code section). Based on these assessments, five independent directors compliant with the independence criteria of the Listing Rules were elected BoD members, while four of them fully complied with the independence criteria set in the Code.

This discrepancy is accounted for by the fact that one of the directors, Ivan Pictet, was a beneficiary owner of PJSC LUKOIL shares, whose market value in 2015 exceeded the amount of the annually fixed remuneration of the BoD member by more than 20 times (it does not comply with one of the independence criteria contained in the Code; however, there is no such criterion in the Listing Rules). However, the Company considered the fact that Ivan Pictet had been beneficiary owner of this block of shares before enforcement of the Code. Besides, this block of shares constituted a minor stake in the Company's charter capital (less than 0.01%). In the beginning of 2016 Ivan Pictet ceased to own such block of shares and according to the estimates of the Human Resources and Compensation Committee now he fully complies both with the independence criteria of the Listing Rules and those of the Code.

Considering the above, as of the end of 2015, the Board of Directors consisted of: Chairman of the Board of Directors (non-executive director), three executive directors (the President, the First Executive Vice President and Vice President for Strategic Development), four directors considered independent according to the Corporate Governance Code and the Listing Rules, one director considered independent according to the Listing Rules and non-executive according to the Code, as well as two non-executive directors.

The Company is of the opinion that despite partial non-compliance of certain non-executive directors with the formal independence criteria, their vast knowledge and long-standing practical experience, as well as their generally recognized reputation among investors allow them to make unbiased, independent and bona fide judgements and make decisions that serve the interests of the Company and its shareholders.

Details on the Company's Board members, including their curricula, 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 summarized its preliminary operational results of the LUKOIL Group for the past year and sets the goals for the current year and short-term goals, and in the course of this procedure it identifies the priority areas of business for the current year and conducts a comparative review of the Company's operational performance over the recent years;
- in April the Board resolves on the preparation of the General Shareholders Meeting, and, in particular, it approves the agenda, designates the compilation date of the list of persons entitled to participate in the meeting, the text and the forms of voting ballots, prepares recommendations 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 PJSC LUKOIL for the past year which is then submitted to the Annual 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;
- in May the Board also approves the Company's Corporate Governance Report;
- 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 Secretary of the Board and elects committee members;

- in July the Board forms the Management Committee of PJSC 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 payable to the Auditor of PJSC 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 preliminary results of the LUKOIL Group's business for the first six months of the year and reviews budget and investment programs performance in the current year;

In addition to the above issues, in October, 2015 the Board of Directors resolved to hold an extraordinary General Shareholders Meeting to resolve on the payment of interim dividends based on the performance over the 9 months of 2015 year.

In December, 2015, the Board also approved the major mid-term plan indicators of LUKOIL Group for 2016-2018.

In 2015 approval of the LUKOIL Group Strategic Development Program for the next 10 years was suspended due to the abrupt oil price drop taking place over the past two years accompanied by the unfavorable changes in the macroeconomic environment (the economic sanctions imposed by the USA and the EU produced an additional negative effect) and the need for adjustment of operational plans and investment programs. Currently the Company operates based on the medium-term plan perspective.

The Board also conducted a detailed review and defined an action plan to develop certain LUKOIL Group business segments. This work was performed with a focus on the following issues:

- Comparative Data of Company Performance in the Recent Years: Technological Efficiency in the Exploration and Production Business Segment (Minutes No. 1 of January 28, 2015);
- On Investment Program Implementation Progress, Compliance with the Approved Commissioning Schedules in the Refining and Marketing Business Segment (Minutes No. 7 of April 28, 2015);
- On Fulfillment of Obligations of the LUKOIL Group Organizations under the Power Delivery Contracts provided for by Decree No. 1334 of the RF Government of August 11, 2010 (Minutes No. 7 of April 28, 2015);
- On Introduction of Innovations in the LUKOIL Group Organizations (Minutes No. 7 of April 28, 2015);
- Development Strategy of Fields at Advanced Stages (Minutes No. 9 of May 14, 2015);
- On Implementation of Company's Caspian Projects (Minutes No. 22 of December 10, 2015).

In 2015 the Board also approved a number of important documents to improve corporate governance:

- Amendment to the Provision on the Performance Assessment of the Board of Directors of the Open Joint-Stock Company LUKOIL Oil Company (Minutes No. 5 of March 30, 2015) that specifies the performance assessment criteria of the Board of Directors and its Committees;
- Regulations on PJSC LUKOIL's Insider Information (Minutes No. 14 of July 27, 2015);

- The Remuneration and Compensation Payment Procedure to the Members of PJSC LUKOIL's BoD and Audit Commission (Minutes No. 20 of October 27, 2015);
- Amendments and Addenda to the Provision on Labor Remuneration and Incentives for OAO LUKOIL's Executive Officers¹ (Minutes No.15 of August 17, 2015).

To better familiarize the Board members with the regions of the Company's operation, the Company has introduced the practice of visiting Board meetings. In 2015, the meeting dedicated to the development of the Oil Refining, Petrochemistry and Gas Refining Unit was held in Volgograd. The Board members were familiarized with the activities of Volgograd refinery.

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

The Board meetings may be held in person and by absentee voting/ballot. In 2015 the BoD held 8 in-person meetings, and 16 meetings by ballot. The information on attendance and participation in BoD in-person meetings and meetings by ballot is specified in the below table.

Each in-person BoD meeting is attended by the members of the Company's Management Committee. They present their reports dedicated to the agenda items.

Visiting meetings are also attended by the heads of the organizations operating in the regions where such meetings are held.

Twice a year (in January and in August) extended BoD meetings are held. They are attended by the members of the Management Committee and other Company's key employees, as well as heads of the LUKOIL Group organizations; at the same time some of them act as co-speakers on plan, budget and investment program execution.

In line with the Regulations on the Performance Assessment of the Board of Directors of the Open Joint-Stock Company LUKOIL Oil Company approved by BoD on April 16, 2012 (Minutes No. 7), as amended on March 30, 2015 (Minutes No. 5), the employees of the Company's Office polled the BoD members who assessed the activities of the Board of Directors and its Committees in 2014-2015.

The informal approach of the BoD members to performance assessment of the said body enabled them to identify the issues requiring greater attention on the part of the Board of Directors.

During the meeting held on May 14, 2015 (Minutes No. 9) the BoD summarized its polling results. Given the 2014-2015 BoD Performance Report and the 2014-2015 BoD performance assessment results, the BoD positively assessed its activities in the reporting period.

PJSC LUKOIL Office supported the activities of the BoD and the Board Committees in 2015. Head of Office simultaneously acts as the BoD Secretary and also performs the functions of a corporate secretary. He is also member of LUKOIL's Management Committee.

The Office of PJSC LUKOIL is 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

¹In 2015 due to the amendments introduced to the Russian legislation regulating the activities of joint-stock companies the Company's name was changed from OAO LUKOIL to PJSC LUKOIL. In certain cases the text of this Report contains the Company's former name if it refers to certain facts related to the periods when the former name was in use, or the names of the documents approved during the period when the former name was in use and that have not yet been amended.

LUKOIL's Board Office prepared and submitted the action plans of the Board and the work plans of the Board Committees in view of their competence to the Board for approval.

The employees of LUKOIL's Board Office made sure that the reference materials required for voting on the items of the agenda were provided to the Board members, including translation into the English language, if required.

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

The preparation, distribution and storage procedure for the BoD and BoD Committees meeting materials is available in electronic form as well. Specialized software was developed to make it possible for the BoD members to download the meeting materials to their mobile devices.

Table of Participation of BoD Members in In-person Meetings and Meetings by Ballot of BoD in 2015

	in-person meetings ¹		meetings by ballot ²	
	N	A	N*	A*
V.I. Grayfer	8 ^{Ch}	7	16	16
V.Yu. Alekperov	8	8	10	8
V.V. Blazheev	8	6	16	16
I.S. Ivanov	8	4	16	16
R.U. Maganov	8	7	10	10
R. Munnings (from June 25, 2015)	5	5	8	8
R. Matzke	8	8	16	16
S.A. Mikhailov	8	8	16	16
M. Mobius (until June 25, 2015)	3	2	8	8
G. Moscato	8	7	16	13
I. Pictet	8	6	16	13
L.A. Fedun	8	8	16	16

Ch Chairman

N Number of in-person meetings held

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

N* Number of held meetings by ballot with mandatory participation of the director in the voting procedure

A* Actual number of meetings by ballot with mandatory participation of the director in the voting procedure

¹ In line with the applicable Regulations on OAO LUKOIL Board of Directors, participation in the meetings held in the form of joint attendance, by telephone or video conference communication shall be regarded as bodily presence at the meeting.

² The number of meetings by ballot with mandatory participation of directors differ since meetings by ballot are often dedicated to the consideration of related party transactions, and certain directors are regarded as an interested party thus they are not participating in the voting procedure.

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 the 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 PJSC 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.

As of the end of 2015 the Audit Committee consisted of one director considered independent according to the Code and the Listing Rules (Committee Chairman), one non-executive director and one director considered independent according to the Listing Rules and non-executive according to the Code. Currently two out of three Committee members are independent both in terms of the Code and the Listing Rules (also see [Board of Directors](#) section).

In 2015 the Audit Committee held 6 meetings in person; recommendations were given with regard to a possibility of preliminary approval of the Company's 2014 Annual Report, internal audit system improvement, as well as approval of the internal 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 for the selection of candidates to 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 to the Board of Directors on priority areas related to human resources and the remuneration of the Company's management 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 2015 the Committee consisted of one director considered independent according to the Code and the Listing Rules (Committee Chairman) and two non-executive directors.

In 2015 the Human Resources and Compensation Committee held 4 meetings in person and 2 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.

As of the end of 2015 the Strategy and Investment Committee consisted of four directors, two of them were considered independent according to the Code and the Listing Rules, and the other two were executive directors. The Committee is headed by an independent director.

In 2015 the Strategy and Investment Committee held 3 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 the interim dividends based on the results of the respective reporting period.

The information on attendance of the in-person meetings of the Board Committees is specified in the table below.

Table of Participation of BoD Members in In-person Meetings of Board Committees in 2015

	Audit Committee		Human Resources and Compensation Committee		Strategy and Investment Committee	
	N	A	N	A	N	A
V.I. Grayfer						
V.Yu. Alekperov						
V.V. Blazheev	6	6 ^{Ch}				
I.S. Ivanov					3	3 ^{Ch}
R.U. Maganov					3	3
R. Munnings (from June 25, 2015)			2	2 ^{Ch}		
R. Matzke			4	4		
S.A. Mikhailov	6	6	4	4		
M. Mobius (until June 25, 2015)			2	2 ^{Ch}	2	2
G. Moscato					3	2
I. Pictet	5	6				
L.A. Fedun					3	2

Ch Chairman

N Number of in-person meetings held

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

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 PJSC LUKOIL's Charter. V. Yu. Alekperov was appointed Company's President in 2011 by the Annual General Shareholders Meeting.

The Management Committee chaired by the Chairman of the Management Committee is a collective 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 a proposal concerning the number of the Management Committee members and the nominated persons to the Board for approval. 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.

As of 2015 beginning, the Management Committee consisted of 14 members; in July the President suggested that D.V. Rogachev, Vice President for Purchases, also join it. Thus, as at the end of 2015 the Company's Management Committee consisted of 15 members: The Company's President, the First Executive Vice President (Exploration and Production), two First Vice Presidents (Refining and Marketing, Economics and Finance), two Senior Vice Presidents and Vice Presidents responsible for certain business areas.

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 President and/or 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.

5. Audit Commission

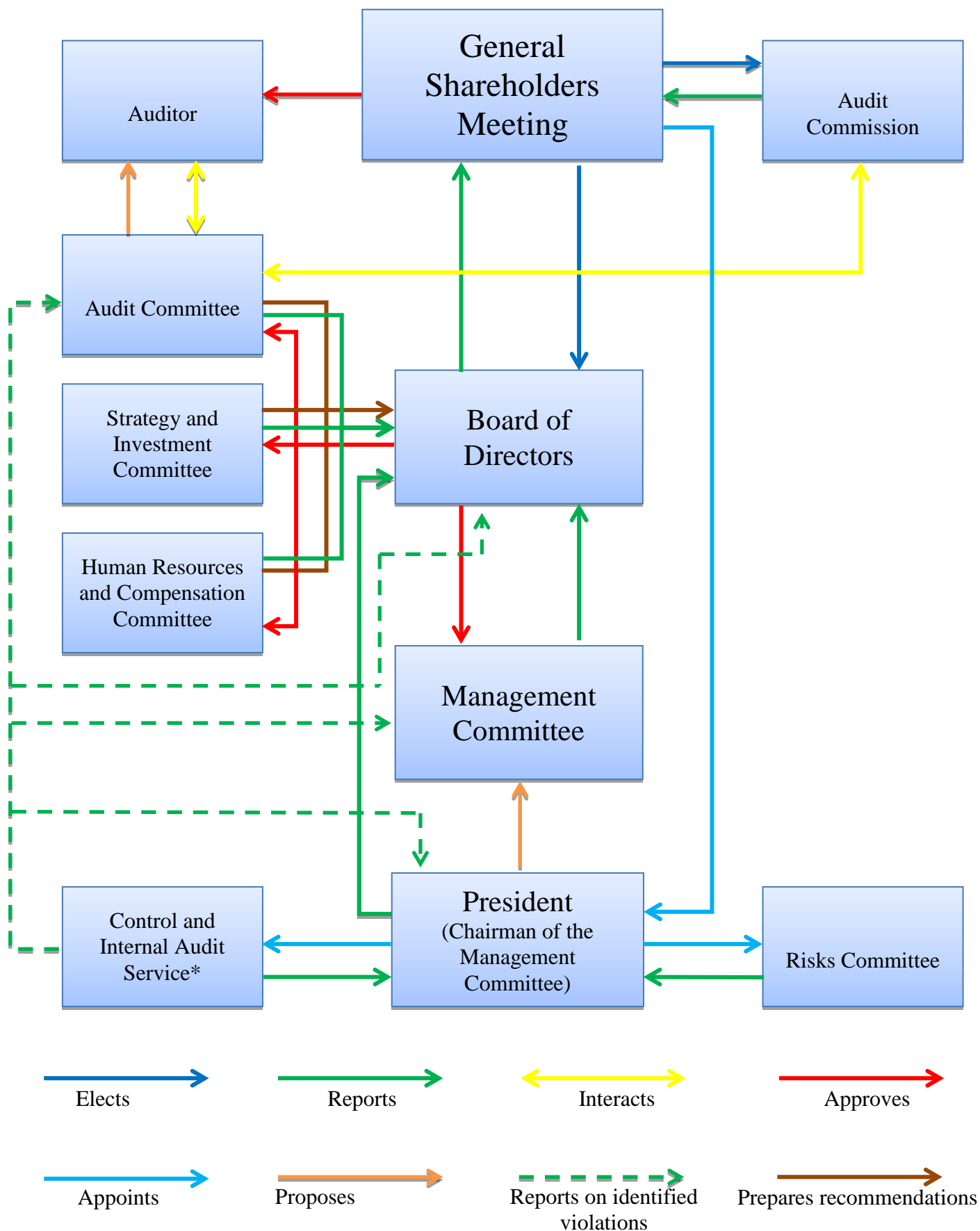
The Audit Commission checks the accuracy of the data contained in PJSC LUKOIL's annual report and the annual financial statements in accordance with the Russian laws and generally controls the Company's financial and business activities. The members of the Audit Commission are elected on an annual basis at each Annual General Shareholders Meeting to serve until the next General Shareholders Meeting. The Commission has three members. The General Shareholders Meeting may require early termination of 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 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 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.

The remuneration payable to the members of the Audit Commission is approved by the General Shareholders Meeting. The remuneration shall be paid in Russian rubles. The Annual General Shareholders Meeting held in 2015 resolved to retain the remuneration amount for the newly elected members of the Audit Commission, that had been approved by the Annual General Shareholders Meeting in 2014. Currently the remuneration paid to the member of the Audit Commission is equal to nearly 60% of the remuneration amount paid for the performance of duties of the BoD member.

PJSC “LUKOIL” Corporate Governance Structure



* Accountability of the Control and Internal Audit Service is shown according to the structure that was in effect until December 2015.

6. Preparation of Financial Statements

LUKOIL regularly prepares and discloses its annual and interim consolidated financial statements under International Accounting Standards (also see [Shareholder Relations](#) section). Until 2015 the Company had prepared the US GAAP consolidated financial statements, and starting from its statements for 2015 LUKOIL is obliged to prepare consolidated financial statements according to the IFRS pursuant to the requirements of Federal Law No. 208-FZ “On Consolidated Financial Statements” of July 27, 2010.

In addition, PJSC 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 IFRS consolidated financial statements is challenging since the Russian companies in the LUKOIL Group (hereinafter, the Group) do not prepare the IFRS statements themselves. These Group companies prepare RAS financial statements, whereas such RAS statements are converted to IFRS on a centralized basis by LUKOIL's Accounting Service. Foreign subsidiaries prepare IFRS 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 Organizations	Financial Statements	Responsibility
Russian companies that prepare RAS statements themselves	RAS	CEO, Chief Accountant
	IFRS	PJSC LUKOIL Accounting Service
Russian companies that do not prepare RAS statements themselves and are serviced by the Regional Accounting Offices (RAO)	RAS	CEO, Head of RAO
	IFRS	PJSC LUKOIL Accounting Service
Foreign entities that prepare IFRS statements themselves	IFRS	CEO, Chief Accountant
Foreign entities that do not prepare IFRS statements themselves serviced in the European Accounting Center	IFRS	CEO, Head of the European Accounting Center
PJSC LUKOIL	IFRS, consolidated	PJSC LUKOIL's President Vice-President, PJSC LUKOIL's Chief Accountant

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 prepares its consolidated financial statements on a quarterly basis. Interim financial statements (as of March 31, June 30 and September 30) are published jointly with the independent Auditor's Reviews. The annual financial statements (as of December 31, each year) are published along with the auditor's opinion and

contain additional information on geological exploration and oil and gas production. The Company publishes both the interim and annual financial statements along with its MD&As.

There is a trend 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 Audit Service (also see [Internal Control and Internal Audit](#) section) which, among other things, audits the accuracy of the financial statements of the LUKOIL Group organizations. 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 the correctness and accuracy of the financial statements of the Group companies;
- regular advice to the Group companies on accounting issues (RAS and IFRS), solving 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;
- The Company's Accounting Service has developed review and reconciliation procedures for various items of the financial statements of the Group companies, and it controls the accuracy of the Group companies' financial statements (under RAS and IFRS);
- 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 IFRS statements requires cooperation between the Department for International Accounting of PJSC LUKOIL and various subdivisions both in the Company and across the Group companies. A regular exchange and additional review of information form part of such cooperation. The actual data prepared by the Accounting Service is also used by various subdivisions 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.

Unified Accounting Policy of the Group. The Company has the IFRS accounting policy approved by the Management Committee that is reconsidered at least once a year. The amendments shall be introduced by virtue of PJSC LUKOIL's order. Adoption of a new accounting policy requires its approval by the Company's Management Committee. The IFRS accounting policy is binding on all LUKOIL Group organizations that prepare independent IFRS 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 to the accounting policies of the Company's Russian subsidiaries.

The centralized development of the accounting policies (under RAS and IFRS) ensures unified principles of accounting and reporting of similar transactions, and facilitates the performance comparability of the Company's subsidiaries and the other companies, in which the LUKOIL Group organizations own more than 50% of their charter capital.

Centralized Decision-Making Process. The Company has a system in place that ensures centralized decision-making if applicable 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 Company);
- timeline for preparation of annual and quarterly statements of the Group companies, date of the financial statements audit completion;
- RAS and IFRS 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 IFRS 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 IFRS consolidated financial statements receive advanced training on a regular basis, sponsored both by the Company that organizes training and workshops, and by themselves.

7. External Audit

The auditor of the Company's RAS statements is annually approved by the General Shareholders Meeting as required by the Russian law. 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 IFRS 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 received information, the auditor of the financial statements of the major Group companies (under RAS, for major Group companies in Russia; under IFRS, for major foreign Group companies) is now the same auditor as the auditor of the Company's IFRS consolidated financial statements.

The Company's auditor is independent. The auditor's independence is determined by the International Auditing Standards, the Federal Auditing Rules (Standards) approved by virtue of the decree by the RF Government, and in-house standards.

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 in 2014.

The scope of advisory and other non-audit services performed by the Company's auditor is insignificant as compared to the scope and fees for the work related to the audit of financial statements of LUKOIL Group organizations. The remuneration share paid to the Auditor for the services not related to audits in the total remuneration amount does not exceed 25%.

8. Internal Control and Internal Audit

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

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

In 2015 the key documents setting forth the structure, purpose, parties involved and functions of the system of internal controls of the Company were Regulations on Internal Control and Internal Audit at OAO LUKOIL and Regulations on the Organization and Conduct of Control and Audit Reviews at OAO LUKOIL, Regulations on Internal Audit in OAO LUKOIL on Consulting approved by the Board of Directors of OAO LUKOIL.

According to the internal control system that was in place in 2015, the following bodies were involved in the control functions at various levels:

- the Board of Directors and its Audit Committee,
- the President of the Company,
- PJSC LUKOIL's Control and Internal Audit Service
- specialized control and internal audit units of LUKOIL Group organizations,
- structural subdivisions of PJSC LUKOIL,
- Audit commissions of the LUKOIL Group organizations.

The Board of Directors of PJSC LUKOIL approved and amended 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 and internal audit efficiency assessment.

In 2015 the BoD Audit Committee as part of its competences exercised its powers to conduct efficiency analysis of activities of the Control and Internal Audit Service, as well as to review the draft internal documents relating to internal control and internal audit prior to their approval by the Board of Directors in order to provide recommendations as to their approval.

The Control and Internal Audit Service that was functioning in 2015 was a structural subdivision of PJSC LUKOIL responsible for impartial and independent control of the financial and economic activities of the LUKOIL Group organizations. Control and audit of the performance of all the bodies involved in the control (other than Company's President, the Audit Committee and LUKOIL's Board) were among its key tasks.

The Control and Internal Audit Service also developed the internal control and audit procedures that were subsequently approved by the Board of Directors. The approved methodologies and procedures were recommended for application by all the participants of the Internal Control and Internal Audit System in the LUKOIL Group; while the Control and Internal Audit Service ensured uniform application of these methodologies and procedures by the entities involved in internal control.

In 2015 the Control and Internal Audit Service was subordinate to the Vice President for Control and Internal Audit who was the Head of the Control and Internal Audit Service, directly subordinate

to the Company's President in all aspects of its activities. The Vice President for Control and Internal Audit was also member of PJSC LUKOIL Management Committee².

Based on the results of the work underway, the Vice President for Control and Internal Audit informed the Company's President and, on the President's instruction, the management and structural subdivisions of PJSC 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 reported on the violations identified to the Audit Committee of PJSC LUKOIL BoD.

In 2015 according to the Action Plans of the BoD Audit Committee and the PJSC LUKOIL BoD, the Vice President for Control and Internal Audit reported on the state of the internal control, internal audit and risk management system in the LUKOIL Group Organizations at the Audit Committee meeting held on April 7, 2015, and subsequently at PJSC LUKOIL Board meeting held on May 14, 2015.

Specialized control and internal audit subdivisions (hereinafter, the SSCIA) established in 22 LUKOIL Group organizations and exercising internal control and internal audit of 62 organizations became one of the elements of the internal control system of the LUKOIL Group organizations in 2015. The specialized control and internal audit subdivisions (SSCIA) were functionally subordinate to the Vice President for Control and Internal Audit and fulfilled their functions in view of the work plans agreed upon by the Vice President for Control and Internal Audit, which allowed them to coordinate and control their activities, and make sure that the risk-oriented approach to planning of controls and audits was 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 organizations 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 organizations and their efficient use, ensuring accuracy of managerial reporting and financial statements.

Internal financial control 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 monitored accounting procedures and accuracy of financial statements, and also compliance of the LUKOIL Group organizations with the requirements of the applicable laws, accounting policies and other local regulations of the Company relating to financial reporting.

As part of the tasks assigned to them, the SSCIA also checked the accuracy of the management and financial statements of the organizations. These inspections detected deviations and discrepancies in the statements of subsidiaries, and necessary recommendations to eliminate them were prepared.

To protect the corporate interests of PJSC LUKOIL and enhance the efficiency of the internal control system, the LUKOIL Group organizations organize audits.

The audit commissions of the Russian companies of the LUKOIL Group annually audit the financial (accounting) statements before submitting them to the general shareholders (members) meetings. In 2015 the Control and Internal Audit Service coordinated audit commissions activities.

In 2015 audits of the financial and economic activities were conducted in 5 LUKOIL Group organizations and 4 joint ventures.

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

²In the end of 2015 the Company abolished its Control and Internal Audit Service and established the Internal Audit Service chaired by the Vice President, Head of the Internal Audit Service, subordinate to PJSC LUKOIL's BoD.

The 2015 Regulations on Assessment of Internal Audit at OAO LUKOIL provided for annual in-house assessment of internal audit in the Company. PJSC LUKOIL President, and Heads of the LUKOIL Group organizations with the specialized internal control and audit subdivisions (SSCIA) participated in the above assessment that was conducted at the beginning of 2015.

No external efficiency assessment of the PJSC LUKOIL's Control and Internal Audit Service was conducted in 2015.

The Company believes that the applicable local regulations, methods and procedures of internal control, the activities of the specialized subdivisions for control and internal audit, prompt remedial actions in relation to the identified violations and deficiencies indicate that the Company has efficient systems of internal controls and audits in place.

To ensure compliance with the recommendations of the Corporate Governance Code and the Listing Rules in terms of internal audit, the Company has taken measures aimed at delineation of the functional and administrative accountability of the structural subdivision responsible for internal audit (also see [Compliance with the Corporate Governance Code](#) section), and separation of the internal audit function and that of internal control and risk management.

In the end of 2015 amendments to the Company's Charter related to the BoD's functional authority over internal audit were approved. The Company's structure was modified; thus from January 1, 2016, the Company abolished its Unit for Control and Internal Audit and established the Internal Audit Service chaired by the Vice President, Head of the Internal Audit Service subordinate to PJSC LUKOIL's BoD. Simultaneously, the Department for Risk Management and Internal Control was established under the Financial Unit subordinate to the Senior Vice President for Finance. In the beginning of 2016, the BoD approved the new basic corporate local regulations on internal audit considering these organizational changes. Amendments are being introduced to other documents and procedures in view of separation of the internal audit function.

Separation of the internal audit function in the LUKOIL Group via establishment of the Internal Audit Service functionally subordinate to the Company's BoD will ensure compliance with the recommendations of the Code and requirements of the Listing Rules to corporate governance, as well as the International Internal Audit Standards, while retaining the achieved level and internal audit quality; on the other hand, establishment of separate subdivisions in risk management and internal control will enhance the efficiency of the existing risk management and internal control systems.

9. Risk management

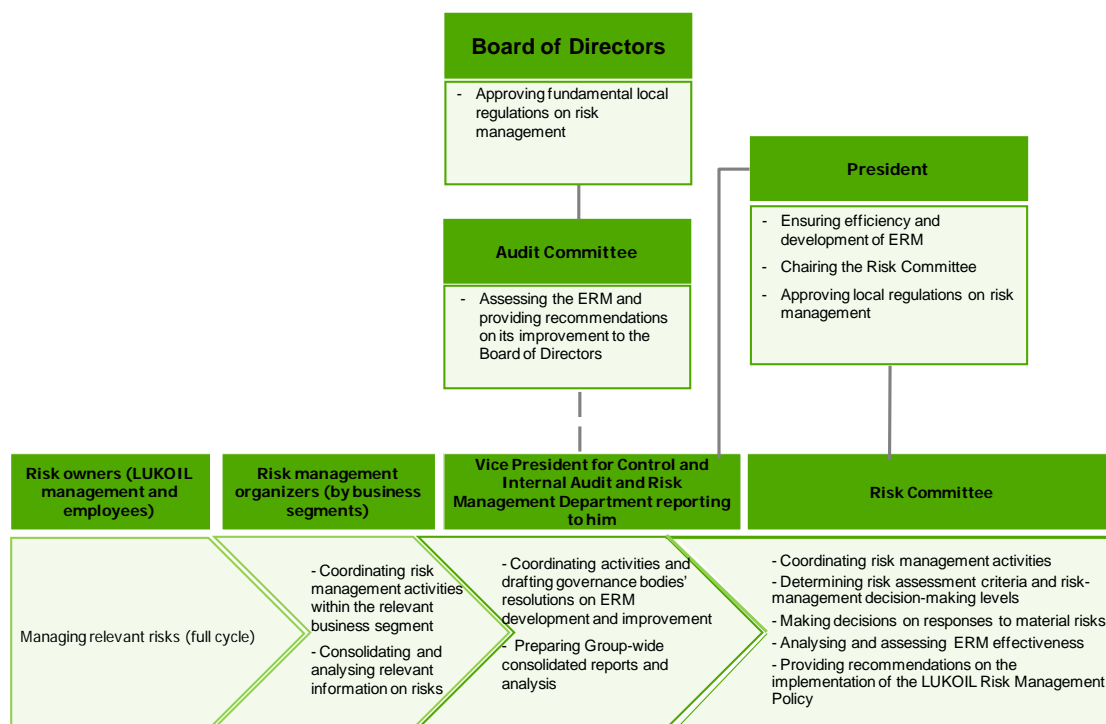
PJSC LUKOIL governance bodies pay great attention to the risk management issues in order to ensure reasonable achievement of the set goals in the conditions characterized by uncertainties and adverse factors.

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

The Company seeks to actively promote risk management and is presently focusing its efforts on the improvement of an enterprise-wide risk management system (ERM) based on the best international practices.

Risk management in PJSC LUKOIL is considered integral part of the economic and production activities and the corporate governance system exercised by the Company's employees across all management levels.

Key Participants of the Enterprise Risk Management in PJSC LUKOIL (according to the 2015 organizational structure)



The Company is constantly improving the applicable regulatory methodological risk management base that establishes requirements aimed at organizing the risk management process at all stages, and defines management standards for certain risk types of utmost importance, which are uniform for all of the LUKOIL Group organizations.

In order to enhance the efficiency of the general corporate risk management system, an automated information risk management system was brought into commercial operation in the LUKOIL Group companies in Q4 2014.

PJSC LUKOIL is constantly identifying, describing, estimating and monitoring the potential events that may affect the Company's activities, and is elaborating measures to prevent them or mitigate their negative impact to the greatest extent possible if such events do take place.

In 2015 the LUKOIL Group organizations implemented a full set of risk management measures in line with the standards set by the Company, the 2016 Enterprise-wide Risk Register was developed. Based on its consideration results the Risks Committee made management decisions provided for by the applicable local regulations.

The corporate risk management system is effective enough but it is being improved on an ongoing basis in view of the ever changing external factors and development of the world's best practice.

In order to ensure compliance with the requirements of the Corporate Governance Code and the Listing Rules, according to which the function of internal audit and that of internal control and risk management should be performed by different structural subdivisions (also see [Internal Control and Internal Audit](#) section), starting from January 01, 2016, the Company introduced organizational changes that provide for subordination of the risk management subdivision to the Senior Vice President for Finance.

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 accounting (financial) statements, including the profit and loss statement of the Company; the distribution of profit and loss based on the results of the fiscal 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 annual General Shareholders Meeting and nominations to the Board, the Audit 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 the period that until 2016 was equal to 30 days after the fiscal year end at the most, while starting from 2016 it is equal to 60 days after the fiscal year end at the most. 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 passed 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 meeting is held (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 may also hold extraordinary general meetings. Such meetings can 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 16, 2015, at the initiative of the Board of Directors of PJSC LUKOIL the Company held the Extraordinary General Shareholders Meeting in the form of absentee voting/ballot. It was resolved to pay dividends on ordinary shares for 9 months of 2015, to approve amendments and addenda to the Charter and to pay a portion of remuneration to BoD members for performance of their duties for the period starting from their election at the 2015 Annual General Shareholders Meeting until the said decision was made during the Extraordinary General Shareholders Meeting.

To facilitate the shareholders' access to the reference materials for the meeting such reference materials are posted on the Company's websites 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.

PJSC LUKOIL regularly discloses its consolidated financial statements and publishes MD&As (also see [Preparation of Financial Statements](#) section). 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 website, 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. The information required to be disclosed is posted on the Company's websites 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 latest report covers the 2013-2014 period).

The Company's representatives also take part in conferences and other events arranged for institutional investors and analysts. In June, 2015 a trip to the Volgograd refinery and a meeting with T.F. Muller, PJSC LUKOIL's Vice President for Oil Refining, Petrochemistry and Gas Processing, were organized for the analysts and representatives of the investment community participating in PJSC LUKOIL's Annual General Shareholders Meeting. The visitors inspected the oil primary processing unit (ELOU-AVT-1) commissioned at the Volgograd refinery, and thoroughly discussed the oil refining outlooks in the LUKOIL Group organizations.

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 the exercise of their shareholder rights, equity transactions and provides the necessary information regarding the Company and interaction with its registrar.

The Company's Charter, Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting, Regulations on the Board, and other important regulations of the Company are available on its website.