

Information about Major Business Risks and Uncertainties of PJSC LUKOIL

The Company's business is predominantly affected by the following risk groups:

- Macroeconomic Risks
- Industry-Specific Risks
- Country Risks
- Financial Risks
- Legal Risks
- Loss of Goodwill Risk (Reputational Risk)
- Strategic Risks
- Other Risks related to Issuer's Business

Realization of any of the below risks may have an adverse impact on the business, performance and value of the issuer's securities. PJSC LUKOIL continuously monitors and takes measures to mitigate risks. However, if such risks materialize, LUKOIL will take measures to mitigate them immediately and minimize loss to the Company. Given the probabilistic nature of risks, as well as the fact that most of them are external for the Company, LUKOIL is unable to provide a 100% guarantee that its risk management measures will reduce their negative impact to zero.

1. Macroeconomic Risks

Risk Description

Macroeconomic changes resulting from the volatility of global prices for energy carriers, foreign exchange rate fluctuations, inflation processes, the global trend of shifting to low carbon economy, the declining world demand for energy resources, changes in fiscal and monetary policies, as well as in the balance and structure of energy demand and supply may have an adverse effect on the Company's financial performance.

Risk Management

The Company has been employing a scenario approach to forecast macroeconomic indicators. One of the scenarios is defined as a base-case scenario and describes the most likely macroeconomic development trends according to the Company's management. In addition, the Company develops worst-case scenarios to respond to adverse changes in the external environment. The application of the worst-case scenario makes it possible to identify assets and investment projects that are most vulnerable to negative macroeconomic changes. Following this analysis, top management decisions are made.

Production and business plans are adjusted on a regular basis to fit the changing market conditions. The Company develops plans to change production volumes and types of its products, first of all seeking to achieve economic efficiency.

2. Industry-Specific Risks

Price Risks

Risk Description

The Company has limited influence over its output prices that depend for the most part on the market environment and (or) measures taken by the regulatory authorities. The oil and petroleum product price drop may have an adverse impact on the Company's financial performance.

Risk Management

LUKOIL is a vertically integrated oil company that embraces production, refining and distribution assets. This structure serves as a natural hedging mechanism, in which multidirectional risk factors compensate one other.

A high share of investments in the Russian Federation ensures the Company's stability due to the compensation mechanism of the tax system in place in the Russian Federation, an extensive share of the Company's ruble investments enabling it to keep costs down compared to the proceeds denominated predominantly in US dollars.

In addition to this, the Company uses a number of measures to reduce the negative price risk impact:

- applies a price scenario while developing long-term programs;

- shapes the investment project portfolio in view of the tolerance analysis of the project performance figures to the changing price parameters;
- uses a commodity supply management system which makes it possible to quickly respond to market changes and conduct arbitrary shipments;
- hedges its operations while conducting international trading.

Risks Associated with Well Construction and Hard-to-Recover Hydrocarbon Field Development

Risk Description

A considerable share of the materials and equipment required for well construction is purchased by entities of the Group and their contractors from the EU and US manufacturers. Restrictions prohibiting the supply of such equipment and materials may have an adverse impact on the Company's performance.

Risk Management

The Group's projects have stocked spare parts, equipment and supplies for one year ahead. A set of measures has been developed to replace the chemical agents for drill mud preparation and processing supplied from Europe and the US with those manufactured in Russia and other countries.

The Company also seeks to promote domestic technologies and consistently reduces the share of imported equipment. As part of the Group's projects, R&D operations are being conducted to test new samples of domestic equipment, while domestic multi-zone hydrofracturing techniques are being introduced on a stage-by-stage basis.

Risks Associated with the Growth of Tariffs and Suppliers' Prices

Risk Description

In its day-to-day business the Company uses goods and services provided by third parties, including energy and transportation services. The expenses related to the acquisition of goods and services from third parties directly affect the Company's financial performance.

The Company uses the services of such transportation monopolies as OAO RZhD, PAO Transneft, PAO Gazprom and other similar majors in the countries of the Group's presence, while the prices for their services grow on a regular basis.

There is also a risk of price growth for the services and goods coming from other suppliers, including motor transportation, customs broker services, warehouse storage expenses, etc.

Risk Management

In order to minimize the risks associated with tariff growth of monopolies in the countries of its presence, as well as the risk of price growth for the services of other suppliers, the Company:

- diversifies ways of product transportation, also by establishing alternative supply routes;
- participates in the joint operations aimed at the prevention of advanced tariff growth of monopolies together with other consumers;
- holds bidding procedures when selecting long-term suppliers;
- uses a tool to freeze the transportation terms given long-term cooperation;
- introduces resource-saving technologies.

To mitigate the risk of price growth on the part of the suppliers of goods and services, the Company improves its bidding procedures and extends its competitive environment (list of suppliers of goods and services).

The Risk of Failure to Discover Geological Reserves or Discovery of the Reserves below the Initially Expected Level

Risk Description

The Company's business is exposed to the following risk: while implementing new projects and conducting exploratory drilling, it might not discover any productive (commercially efficient) oil and gas reserves, and/or the discovered reserves may be considerably below the initially expected level. Given the above, the Company may be forced to write off the respective expenses, which may affect its financial results.

Risk Management

The Company continuously improves its geologic exploration techniques and employs a staged approach to its operations according to which next stages are planned with due consideration of the results obtained at the previous stage.

Due to its cooperation with major international oil and gas companies the Company is able to explore and successfully employ their expertise in geologic exploration across the Group's facilities.

The Risk of Partial Confirmation of the Anticipated Efficiency of Well Operations and Production Drilling

Risk Description

The Company's operations are characterized by the presence of risk of failure to ensure the anticipated efficiency of its well operations, as well as that of production drilling, which may result in reconsidering its target hydrocarbon production level and affect the Company's financial performance.

Risk Management

PJSC LUKOIL strives to manage this risk at the level sufficient for prompt risk response, by means of proactive implementation of additional measures to ensure efficiency of its geological and engineering operations and drilling back-up production wells. The main types of well operations are designed by developing targeted well operation plans that are aimed at achieving hydrocarbon production and field development targets. Well operations are prepared using modern reservoir analysis and flow simulation tools. In addition to that, for some fields the Company also applies integrated simulation that considerably improves the quality of field management due to the balanced assessment of the interaction between various production elements, such as the reservoir, the well and the surface infrastructure. Well operations and production drilling are adjusted in view of the actual results on a monthly and quarterly basis.

Risks Associated with Subsurface Use and Licensing

Risk Description

The applicable Russian legislation on subsurface use and licensing of exploration and production activities, as well as its practical application hold a number of risks. The major ones are listed below:

- a risk of early termination of a subsoil license or a risk of penalties for failure to comply with the terms of license agreements;
- a risk of a legal entity that discovered a field of federal significance or a field located in the subsurface area of federal significance, including legal entities where foreign investors have shares, of not obtaining the right to subsurface use;
- a risk of refusal to accept bidding documents for participation in competitive sales/biddings for subsurface use rights.

Risk Management

To mitigate the risks associated with subsurface use and licensing, the Company:

- monitors legislation as well as subsurface use and licensing changes, forwards proposals to update the applicable regulatory framework;
- checks the list of sites associated with the open acreage, which are of interest to the Company, on a regular basis;
- prepares bidding documents to participate in the bidding procedures for subsurface rights and re-register licenses;
- holds annual advanced training workshops for its licensing and subsoil use experts, ensures their participation in key workshops in the respective areas of operations;
- monitors the current subsoil use situation via a special information system;
- interacts with the regulatory authorities in order to mitigate the risk of early subsoil license termination.

Geological and process risks the Company is exposed to during the start-up of wells that have been shut down to limit oil production in order to meet the obligations assumed by the Russian Federation under the agreement with OPEC

Risk Description

The start-up of wells that have been shut down to meet the obligations under the OPEC agreement is associated with geological and process risks of delayed recovery of oil production that depends, among other things, on the shutdown period, seasonality and production region.

Risk Management

The wells that had to be shut down were selected, among other things, also to mitigate the negative impact on the development. The wells that had to be shut down (production and injection wells) are mainly located in the same reservoir of the development target, one element or the entire field, which minimizes the risks of disproportion in the development system.

If the well is shut down for a longer period, including winter, the Company takes organizational and technical measures to prevent the well and the pipeline from freezing.

3. Country Risks

Risk Description

Among other things, PJSC LUKOIL has operations in a number of high risk countries (Iraq, Egypt, Uzbekistan, West African countries). Should they be materialized, such risks may significantly complicate the Company's business or even force the Company to suspend its operations.

The main factors which are capable of affecting activities of the LUKOIL Group in these countries include:

- unstable political situation;
- escalation of military conflicts;
- macroeconomic instability;
- expropriation of the Company's assets;
- inefficiency of the legislation and judicial system.

Risk Management

The major part of the Group's production and refining assets is located in the Russian Federation; for this reason the impact of this risk is limited. At the same time the Company seeks to diversify its international operations.

When implementing high risk projects, the Company applies more stringent return level requirements. Besides, should the political or social and economic situation deteriorate in the regions of the Group's presence, PJSC LUKOIL shall implement a set of crisis response measures, including cost saving, optimization of the investment program, equity drawdown, and partner engagement.

4. Financial Risks

Liquidity Risks

Risk Description

Volatility of prices on hydrocarbons, hydrocarbon derivatives and foreign exchange rates, troubled recovery of demand for energy resources and other external factors may create a disproportion in the figures included into plans, budgets and investment programs of LUKOIL Group, thus leading to the shortage of liquidity and sources of funding.

Risk Management

LUKOIL Group's liquidity is managed on a centralized basis. Its principal tool is the global liquidity management system, which includes an automated system of concentration and re-distribution of funds, as well as corporate dealing. LUKOIL Group's operational and strategic management of consolidated cash balance includes regular medium and long-term forecasts of consolidated cash flows and cash balance, control of liquidity indicators, and assessment of the sensitivity of the performance figures included into plans, budgets and investment programs to macroeconomic changes. Should it be necessary, the Company shall amend its plans, sequester the expenses associated with the transition to the worst-case scenario, reschedule deadlines and project implementation dates or include optional projects into the plan in case of improvements in the macroeconomic situation, and promptly finance its business activities.

Currently, PJSC LUKOIL has investment ratings from three largest international rating agencies, including: S&P (BBB rating), Fitch (BBB+ rating) and Moody's (Baa2 rating).

On a regular basis, the Company monitors and ensures compliance of its financial indicators with the rating agencies' requirements, while the Treasury maintains revolving credit lines to guarantee sufficient liquidity in the environment of volatile markets.

Foreign Exchange Risks

Risk Description

The Company's proceeds are mainly shaped by the US dollar proceeds from the oil and petroleum product sales, while operating and capital expenses are denominated in rubles.

In this connection currency exchange fluctuations may have an adverse impact on the Company's financial results.

Risk Management

The Company uses an integrated approach to manage its currency risks, including the application of natural hedging mechanisms, which encompass management of the currency structure of its monetary assets and liabilities.

Risk of Contractor's Default, Failure to Pay on the part of the Contractor

Risk Description

Default events of the Company's contractors may result in failure to collect or delayed collection of proceeds from supplied goods, or, as applied to financial contractors, failure to repay or partial non-repayment of funds placed on their accounts, which may have an adverse impact on the Company's financial performance and call for additional funds to fulfill the Company's obligations.

Risk Management

To mitigate the default risk and that of counterparties' payment default, the Company makes settlements with third parties outside of LUKOIL Group on a pre-paid basis or uses security instruments (letters of credit or bank guarantees) provided by end buyers, arranges for insurance of accounts receivable and carries out regular reliability checks on its counterparties using a dedicated integrity due diligence information system.

A list of counterparty banks recommended for cooperation is compiled, based on a regular comprehensive analysis by applying tools to rank banks and financial institutions, including those recommended for trade finance transactions.

5. Legal Risks

Risk Description

Changes in regulations that cover subsurface use, environmental protection, climate change and corporate governance among other areas may have an adverse impact on the Company's financial performance.

There are some uncertainties:

- associated with the amendments to the Tax Code of the Russian Federation pertaining to the taxation of profits generated by controlled foreign companies and to compliance practices;
- associated with transfer pricing laws pertaining to the global efforts taken to prevent base erosion and profit shifting by multinational companies;
- associated with the introduction of tax measures in the jurisdictions of LUKOIL Group's presence aimed at stimulating and ensuring financial recovery of national economies, in particular, by imposing additional taxes and dues, revising provisions of the tax regimes and double taxation agreements, including the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI).

Risk Management

The Company is constantly monitoring legislative changes and takes measures to collect information on possible changes at the stage of their preliminary discussion. The Company's representatives participate in such discussions in order to provide a detailed explanation of the Company's standpoint on these issues, risks and uncertainties which may arise as a result of the proposed legislative initiatives.

The Company's representatives also participate in the expert reviews held to discuss and develop workable solutions in terms of practical application of the effective legislative innovations.

6. Loss of Goodwill Risk (Reputational Risk)

Risk Description

PJSC LUKOIL faces various factors capable of causing realization of the reputational risk, which may have an adverse impact on its financial performance and the value of its shares. Realization of the said risk may be brought about by both internal and external factors, including failure to meet statutory requirements, those of constituent documents, in-house policies and procedures, non-performance of contractual obligations, poor quality of finished products, or negative perception of the financial stability and financial standing of the Company.

Risk Management

To manage such risks, the Company is taking efforts to ensure the following:

- engage regularly with its stakeholders;
- provide updated and unbiased data on its financial and operating performance, corporate governance and sustainable development;
- continuously monitor statutory and contractual compliance;
- effect timely payments to its counterparties.

The Company maintains oversight over the quality of its products and provided services: in particular, a hotline is in place to ensure prompt feedback to the matters related to filling stations.

Much attention has been paid to safety and environment issues. In its operations, the Company follows the highest health, safety, and environment standards.

The Company attaches great importance to issues relating to the working environment and social responsibility. The Company implements the programs aimed at support and improvement of the efficient labor and social protection system.

7. Strategic Risks

Risk Description

At the end of 2017 the Company's Board of Directors approved the 2018-2027 Strategic Development Program of the LUKOIL Group encompassing the major risks which the Company may encounter during Program implementation. The list of these risks also includes the risk of failure to meet the deadline in terms of investment project implementation; the risk of failure to reimburse for the expenses associated with implemented projects; the risk of increased tax burden; accident risks.

Risk Management

Strategic risks are always taken into consideration while drafting the Company's strategy. Strategic planning involves assessment of the risks and efficiency of various strategic initiatives, as well as development of a set of strategic decisions that are most preferable in terms of risk to return ratio.

To mitigate its strategic risks, the Company's management monitors the macroeconomic environment, major industry drivers and analyzes performance of the Company's subsidiaries and that of its competitors on a regular basis. While developing its Strategy and Investment Program, the Company relies heavily on the scenario-based and probabilistic modelling tools making it possible to assess various risks.

8. Other Risks related to Issuer's Business

Risks to Public Health and those Associated with the Spread of Epidemics

Risk Description

The global economy is exposed to a considerable negative impact in terms of public health and epidemics.

The declining demand for energy resources and reduced oil prices following exposure to such risks can make business less efficient and impair the Company's financial performance, and even lead to partial depreciation of the Company's assets.

Risk Management

As the coronavirus infection was spreading, the Company took the following measures to ensure safety of its employees and maintain operational efficiency:

- The Company has set up headquarters for prompt response to the spread of the virus;
- The Company has introduced regular testing for coronavirus for employees returning to offices after distance work or leaves;
- The Company has made it obligatory to wear masks and gloves in its offices and has modified working areas and common facilities so that employees could follow the social distancing requirement and stay 1.5 meters away from each other;
- The Company has introduced an attendance schedule for food service areas;
- The Company implements all measures required to ensure industrial safety and fail-safe operation taking into account the HSE requirements;
- The Company has organized development and training activities for employees through a distance learning system;
- Working schedule has been changed for rotational employees (all social security obligations have been complied with).

Additional measures are taken in the Company's offices and Group's entities to prevent the pandemic: body temperature checks have been introduced for employees, offices have been equipped with additional disinfectants, and employees are provided with disposable medical masks.

Risk of Terrorist Attacks, Wrongful Acts by Third Parties

Risk Description

LUKOIL Group has operations in a number of countries with a heightened risk of terrorist attacks and other crimes against the Group's assets.

There are also risks related to wrongdoings on the part of LUKOIL's competitors (specifically, risks of unfair competition), risks of financial and other abuses on the part of the employees, as well as those related to theft of financial resources and commodity stocks.

Risk Management

With account of national legislative requirements and depending on a country where it operates, the Company takes various measures to manage the risk:

- seeks to ensure engineering, special and physical protection of personnel and facilities on the required and reasonable level, and interacts with local competent authorities to prevent possible terror or criminal acts against the Company. In the Russian Federation, the Company participates in the National Antiterrorism Committee campaigns to improve counter-terrorist protection of its assets;
- takes actions to identify those employees who can – either through act or omission – inflict harm on the Company's interests;
- schedules and arranges activities aimed at information security of assets.

Health, Safety and Environment (HSE) Risks

Risk Description

The Group's facilities are characterized by risks related to the shutdown of engineering processes, discharges of hazardous substances, environmental damage, emergency, accidents, fires, which in its turn may cause shutdown of the Group's production facilities and have an adverse impact on the financial performance of the Company.

Risk Management

To mitigate these risks, the Company has established and implemented an effective HSE Management System certified to comply with international standards ISO 14001 and ISO 45001. The following tasks are being fulfilled:

- assignment of responsibility for ensuring compliance with occupational health, safety and environmental requirements at all management levels;
- target corporate HSE programs developed based on best available technology;

- production control over the operation of hazardous production facilities and facilities producing a negative impact on the environment;
- diagnostics (non-destructive inspection) and monitoring of equipment parameters;
- repairs and timely replacement of equipment;
- ensuring that all contractor entities fulfill HSE requirements at all interaction stages;
- developing leadership tools and improving safety culture: conducting leadership safety visits and Safety Days, adhering to key safety rules, and introducing best HSE practices;
- ensuring high qualification of employees at all levels;
- dedicated working environment assessment, improved labor conditions for employees;
- elaboration of Emergency Response Plans at Hazardous Production Facilities, Oil Spill Response Plans, creation of a pool of rescue teams and reserves for emergency response, service personnel training at hazardous production facilities and rescue teams in terms of emergency prevention and response;
- other measures to reduce the occupational accident and injury rate in LUKOIL Group entities.

In addition, LUKOIL Group entities are insured for risks threatening life and health of their personnel and property.

Climate Change Risks

Risk Description

The Company's business is associated with climate change risks that include:

- *Market risks* – risks, associated with demand shifts and customer preferences;
- *Political, legal, regulatory risks* – risks, associated with the transition of the global economy to low carbon development and measures taken by countries, where the Group operates, to introduce more stringent regulations on GHG emissions;
- *Reputational risks* – risks, associated with how stakeholders perceive the Company's willingness or its unwillingness to be involved in the transition to the low carbon economy;
- *Technology risks* – risks, associated with the world's more rapid transition to the low carbon economy as a result of the development of low carbon technologies and their increased efficiency;
- *Physical risks* – risks, associated with climate change and other environmental properties in the regions, where the Group operates, and that might affect reliability of equipment or people's health (these risks include natural calamities and permafrost thawing).

These risks may have an adverse impact on LUKOIL's business as a major producer of fossil fuels and greenhouse gas emitter thus leading to increased costs, lower profitability and limited potential of the future growth.

Risk Management

To mitigate the risks, the Company takes relevant actions that include as follows:

- *Re: market risks* – The Company applies a scenario approach to forecast macroeconomic indicators, various climate scenarios and internal carbon price among them. These tools help identify the most sensitive assets and investment projects in terms of negative changes of macroeconomic parameters and make management decisions;
- *Re: political, legal, regulatory risks* - The Company continuously monitors changes in the climate legislation, strives to collect information on such changes at the stage of preliminary discussion, and to ensure participation of the Company's representatives in such discussions in order to provide a detailed explanation of the Company's standpoint on these issues, risks and uncertainties which may arise as a result of the proposed legislative initiatives;
- *Re: reputational risks* – The Company commits itself to regular disclosure of climate management data and greenhouse gases emissions in line with the GHG Protocol, both direct and indirect emissions included;
- *Re: technological risks* – The Company follows and develops new solutions to increase energy efficiency;
- *Re: physical risks* – The company considers effects of climate changes when designing and constructing facilities, including those in the most sensitive areas (the Arctic, scarce-water regions and offshore facilities), and performs environmental monitoring against a relevant range of parameters that guarantees a timely response.

Risks of Failure to Implement the Investment Program

Risk Description

While implementing investment projects, the Company has to face the risk of higher costs and untimely commissioning of production assets.

Delays in project implementation, including those caused by failure to meet the deadlines for preparing design and estimate documents, obtaining approvals, concluding contracts, work execution periods, as well as changes in field development plans based on additional geological information may undermine future performance and impair investment project efficiency.

If the macroeconomic situation should worsen and the pandemic persist, additional risks associated with failure to implement the investment program include a possible financial descent or bankruptcy of contractors, and failure to engage contractors for the performance of particular types of work due to pandemic-related restrictions.

Besides, since the Company is part of a global supply chain, a prolonged epidemiological crisis may lead to delays in the supply of equipment and materials required for project implementation.

Risk Management

The Company manages this risk by monitoring project implementation progress on a quarterly basis. While developing its investment program, it makes sure that the initial licenses, permits, and authorizations for the next year are valid and in place.

The Company has introduced and is developing an Integrated Project Management System aimed to improve the quality of decision-making and enhance the predictability of large-scale capital projects.

It employs flexible approaches to investment management. In view of the unstable macroeconomic situation, there is a possibility to change the approved investment program as the year progresses.

Competitive Risk

Risk Description

The oil and gas industry exists in a highly competitive environment. The Company competes with other major Russian and international oil and gas companies in the following major areas:

- obtaining licenses to upstream operations in the course of auctions or biddings for subsurface use rights;
- acquisition of assets and equipment, participation in new projects;
- engaging specialized third party service organizations;
- hiring competent and experienced employees;
- access to key transportation infrastructure;
- development, search for, acquisition and integration of technologies;
- sales of end products;
- access to capital.

Besides, LUKOIL Group may face competition on the part of suppliers of alternative energy sources, including eco-friendly renewable energy sources.

Risk Management

LUKOIL is one of the largest vertically integrated oil companies both in Russia and abroad. Over a long period the Company has been demonstrating its efficiency, which turns it into one of the industry's leaders and strengthens its competitive positions. The Company has gained a reputation of a reliable partner with strong financial standing. The Company conducts strategic planning to reduce potential risks of increased competition. As part of long-term market situation development the Company selects the most efficient assets and forms of respective participation interests. The Company monitors the market situation on a regular basis and promptly responds to its changes.

Development of personnel professional and managerial competences and introduction of new technologies help the Company to improve its competitive advantages.

Risk Associated with the Lack of Qualified Personnel

Risk Description

The competence and expertise of the employees may prove insufficient for them to adequately fulfill their duties, which, in its turn, may have a negative impact on the Company's financial performance indicators.

Risk Management

To mitigate the negative impact of this risk, the Company focuses on integrated development of the talent pool potential. The staffing strategy is based on the Company's Development Strategy and depends on the business segments' needs for personnel, with plans and budgets being created for this purpose to help the Company organize efficient manpower redistribution by insourcing, ensure recruitment of employees in due time, and provide for their professional training and development.

Risks of Cyberattacks

Risk Description

Information and technological support and hence the automated processes affecting the Company's financial standing and performance, the reliability of its financial and accounting information, as well as the Company's ability to fulfill its obligations, function in an inter-related information environment and are inevitably exposed to the risks of external and internal cyberattacks, which may affect information confidentiality, integrity and accessibility as part of the IT systems.

The Company considers not only its information and processing tools as assets that have to be protected from exposure to cyberattacks but also the information that has been provided to it by the state authorities, shareholders, business partners and personal data owners.

Risk Management

The Company adheres to the generally accepted global standards and best practices in terms of information security, seeks to use the previously introduced protection tools more efficiently, and continuously improves its internal information security services; however, evolving cyber threats require continuous preparedness to be able to respond to the previously unknown cyberattacks. The success of these activities depends on early detection of new cyber threats before they can affect the Company, and immediate counteraction to cyberattacks, which makes it possible to prevent or minimize potential consequences.

Special attention is given to being able to respond to the changing cyber threat landscape: the information security architecture is restructured, additional security tools are purchased and deployed, and monitoring is intensified in a prompt manner. The Company has successfully initiated and is expanding the computer farm capacity, thus providing users with remote access to their automated workstations and corporate business applications.

Information Technology Support Risks

Risk Description

Besides the risks of cyberattacks which affect the confidentiality, integrity and availability of the information within the IT systems used by the Company, information and technological support of its managerial and financial activities is exposed to the risks whose nature is not related to impaired information security. Such risks comprise the risks of failure to implement the projects focused on the setup and upgrade of IT systems, their breakdowns and failures, failure to obtain IT services from third party suppliers by the Company (also due to the escalation of international sanctions), as well as the risk of market position loss due to delayed application of innovative digital technologies.

Risk Management

As for the risks related to implementation of the projects focused on creation and upgrade of IT systems, the Company applies and improves modern development management practices, adheres to proven engineering solutions with reliable engineering support.

Along with the preventive measures taken to minimize the risks that imply the setup of fail-resistant IT infrastructure, testing of IT systems prior to their commissioning and control of proposed changes, the Company also seeks to plan proactive measures to be taken in case the risk is materialized aimed at reactivation of critical business operations and managerial process before the consequences of their interruption reach the unacceptable limit.

Minimization of risks related to participation of third party IT service providers is ensured both by careful selection of suppliers, control over their activities and support of internal competences related to the provision of IT services that are most critical for the Company.

The Company implements measures to control sanction risks; it has also developed a plan to respond to possible respective risks. Digitalization initiatives are included into LUKOIL Group information strategy.

Risks Associated with Circulation of the Company's Securities

Risk Description

The Company's securities circulate in regulated markets in Russia and abroad. Changes in the requirements to the issuers on the part of the regulatory authorities and stock exchanges may induce the Company to amend its corporate governance procedures and assume extra obligations as to information disclosure and shareholder relations. Should the Company fail to ensure compliance with these requirements and fulfill the required obligations, it may result in changing the listing level of the Company's securities and delisting, which may have an adverse impact on the liquidity and price of the securities.

Risk Management

The Company monitors changes in the listing rules and other requirements of stock exchanges and regulatory authorities. The Company's representatives participate in the working meetings and other issuer events arranged by stock exchanges and other organizations that provide consulting and educational services to the issuers. The Company also seeks to introduce the best global practice in corporate governance.

Risks Associated with Disclosure Obligations

Risk Description

In order to maintain its securities listing the Company adheres to certain obligatory information disclosure procedures within the timelines set by the requirements of the regulatory authorities and stock exchanges. The information is disclosed in digital form by transferring it to the organizations authorized to disclose information in stock markets by regulatory authorities (hereinafter also, information disclosure services), via websites of the said organizations and e-mails. Should websites of the information disclosure organizations be unreachable (due to hacker attacks, technical failures, etc.), as well as in case of malfunction of the Company's own computer systems and other resources used for the employees' temporary transition to distance work, the necessary information cannot to be disclosed within the set time limits, which may be considered as a violation of the Company's obligations and result in administrative fines for the Company and/or its executive employees by the securities regulatory authorities.

Risk Management

In order to mitigate these risks the Company shall conclude information disclosure agreements with several information disclosure services, seek to submit the information prior to the agreed schedule thus ensuring enough time to tackle possible technical failures. If the need be, the Company's authorized employees can promptly contact the assigned employees of the information disclosure services. In case of distance work, the Company's IT departments provide essential technical and consulting support to employees, and the Company monitors compliance with regulations and requirements applicable during this distance work period.

Risk Management Procedures

PJSC LUKOIL Management pays great attention to risk management issues in order to ensure reasonable assurance of the set goals in the conditions characterized by uncertainties and adverse factors. 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.

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. The Company is constantly improving the applicable regulatory methodological risk management base which establishes uniform requirements for all LUKOIL Group entities aimed at arranging the risk management process at all stages, and defines management standards for certain risk types of utmost importance. The Company has set up the Risk Committee, a dedicated body under the President of PJSC LUKOIL.

The Risk Management and Internal Control Policy of PJSC LUKOIL establishes major principles and approaches to the risk management and internal control system covering the entire LUKOIL Group, its main goals and objectives of participants in the System. Information about the Policy is contained in section 4.5 of the quarterly report.

In order to enhance the efficiency of the corporate-wide governance system through the establishment of a unified information environment, an information risk management system has been established and is being constantly improved across LUKOIL Group entities.

Responsibility statement

I hereby confirm that to the best of my knowledge:

(a) the set of financial statements, which has been prepared in accordance with the International Financial Reporting Standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole as required by the Disclosure Guidance and Transparency Rules ('DTR') 4.2.4R,

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year,

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R, being related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position and performance of the enterprise during that period, and any changes in the related parties transactions described in the last annual report that could do so.

Alekperov V. Y.
President of PJSC LUKOIL

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