

CONTROL

INTERNAL CONTROL

In an effort to enhance the effectiveness of the internal control system and improve corporate governance, Gazprom Neft PJSC developed the Gazprom Neft PJSC Internal Control Policy, which is the primary document in matters of internal control and identifies the goals, objectives, components and principles for the establishment and operation of the Company's internal control system. The Policy is published along with the Company's other internal documents at: ir.gazprom-neft.com

The Policy was tentatively endorsed by the Audit Committee of the Gazprom Neft PJSC Board of Directors and approved by the Board of Directors in February 2017.

The Company succeeds in achieving its goals in the most optimal way possible due to the high level of involvement of the Company's executive bodies and senior management as well as the heads of structural units and Company employees in organising and supporting the effective operation of the internal control system.

The internal control system ensures:

- > the identification and assessment of risks affecting the achievement of the Company's goals;
- > the development, introduction, proper implementation, monitoring and improvement of control procedures at all levels of the Company's business operations and management;
- > awareness among the appropriate level of governing bodies about major shortcomings in control along with a suggestion for corrective measures to remedy deficiencies;
- > the continuity of the Company's operations, the most effective performance of the Company's activities, its sustainability and development prospects, including the Company's timely adaptation to changes in the internal and external environment;
- > high-quality information, methodological and analytical support for the management decision-making process at the Company;
- > the proper distribution of responsibility, powers and functions between the subjects of internal control and the prevention of duplicated functions;
- > continuous improvement to the control system with respect to information technologies;
- > the timely resolution of conflicts of interest that arise in the process of the Company's activities.

The subjects of internal control at the Company and the distribution among them of the appropriate functions to organise and support the effective operation of the Company's internal control system are primarily determined as follows.

As part of its day-to-day management of the Company's operations, the **Board of Directors** performs the functions of creating an appropriate control environment, introducing a culture of internal control and maintaining high ethical standards at all levels of the Company's activities. The Board of Directors determines the principles and approaches used for the organisation and operation of the Company's internal control system; analyses and assesses its effectiveness, including an annual review how effectively the internal control system is organised and operates and, if necessary, the preparation of recommendations on how to improve it.

Information concerning the effectiveness of the internal control system is provided to shareholders within the Company's annual report and also as part of the Gazprom Neft PJSC Internal Audit Department's report on its performance results.

The **Audit Committee** performs the function of preparing recommendations for the Board of Directors on matters concerning the organisation, operation, effectiveness assessment and improvement of the Company's internal control system, analyses the Company's reporting and internal audit results for compliance with the legislation of the Russian Federation, International Financial Reporting Standards, Russian Accounting Standard and other regulatory legal acts and considers any established or alleged unethical practices by the Company's employees.

The Company's **executive bodies** and **senior management** perform functions that aim to organise the development and effective operation of the internal control system; create a proper control environment, introduce a culture of internal control and support high ethical standards at all level of the Company's activities; distribute powers and duties and assign responsibility among the heads of structural units for establishing, introducing,

supporting, monitoring and improving the effective organisation and operation of the Company's internal control system; conduct a regular performance assessment of the Company's employees and train personnel on internal control in connection with changes to the internal and external conditions of the Company's operation.

The **heads of the Company's structural units and employees** perform functions that aim to develop, document, introduce, fulfil, monitor (self-assessment) and improve control procedures within the framework of their relevant competencies and in the zone of their responsibility; and timely inform supervisors about incidents when it is impossible to perform control procedures for any reason and/or changes must be made to control procedures due to changes to the internal and external conditions of the Company's operation.

The **Internal Audit Department** performs the following functions:

- > an independent and objective assessment of the effective organisation and operation of the Company's internal control system based on a risk-oriented approach;
- > developing recommendations to eliminate deficiencies identified in the course of audits and monitoring their introduction;
- > consulting support for stakeholders within the Company with respect to the organisation and operation of the Company's internal control system;
- > reporting the assessment results of the internal control system and proposals for its improvement to the Company's Audit Committee and executive bodies.

The **Audit Commission** monitors the compilation of reliable financial statements and other information about the Company's financial and business activities and property status.

AUDIT COMMISSION

The Audit Commission is a standing body that supervises the financial and business operations of Gazprom Neft. The Audit Commission acts on behalf of shareholders and is subordinate to the General Meeting of Shareholders in its activities.

The Audit Commission conducts audits of financial and business operations on the basis of the Charter and the Regulation on the Audit Commission and forms an independent opinion on the state of affairs at the Company. The Audit Commission's conclusions are conveyed to shareholders at the General Meeting of Shareholders in the form of a report by the Company's Audit Commission attached to the Gazprom Neft annual report.

The Audit Commission was elected at the Annual General Meeting of Shareholders on 10 June 2016 with the following members:

- > V. K. Bikulov;
- > G. Y. Delvig;
- > A. A. Kotlyar;
- > M. I. Mironova
- > A. A. Frolov

Remuneration is paid to members of the Audit Commission based on the decision of the General Meeting of Shareholders. Annual remuneration for members of the Audit Commission paid in 2016 totalled RUB 4,520,000.

INTERNAL AUDIT DEPARTMENT

The Company conducts internal audits for a systematic and independent evaluation of the reliability and effectiveness of the risk management and internal control system as well as corporate governance practices.

Internal audits are performed by the Company's Internal Audit Department whose director is appointed in coordination with the Board of Directors.

The Internal Audit Department is functionally subordinate to the Audit Committee of the Board of Directors and directly subordinate to the Company's CEO.

The Internal Audit Department's mission is to provide the Board of Directors, Audit Committee, CEO and senior management with independent, objective, reasonable and substantiated guarantees and consultations that aim to improve the Company's activities.

The internal audit function helps to achieve the Company's goals using a systematic and sequential approach to assessing and improving the effectiveness of internal control, risk management and corporate governance processes.

The main functions of the Internal Audit Department, among other things, include:

- > Assessing the effectiveness of the internal control system for the Company's business processes.
- > Assessing the effectiveness of procedures that ensure the safeguarding and legitimate use of the Company's assets.
- > Assessing the effectiveness of the internal control system for the accuracy of the Company's external and internal reporting.
- > Assessing the effectiveness of internal monitoring of compliance with the requirements of applicable existing legislation and regulatory organisations, internal organisational and administrative documents and regulations, and the decisions of the Company's governing bodies.
- > Assessing the effectiveness of information systems, IT processes and automated processes, and their compliance with the Company's strategy.
- > Assessing the effectiveness of anti-fraud and anti-corruption measures at the Company. Participation in investigations of fraud and violations of the Corporate Conduct Code based on requests from the Company's Audit Committee and CEO.