

PricewaterhouseCoopers Audit JSC (PwC) was re-elected as the Company's auditor at the General Meeting of Shareholders in June 2016.

The Board of Directors set payment for the audit services of the Gazprom Neft PJSC financial (accounting) statements for 2016 at RUB 39,060,000 (excluding VAT), including:

- > RUB 6.06 million – audit services for Gazprom Neft statements according to Russian Accounting Standards (RAS);
- > RUB 33 million – audit services for the consolidated statements according to International Financial Reporting Standards (IFRS), including services involving the audit of interim statements.

The external audit policy of Gazprom Neft PJSC contains a requirement on the management of conflicts of interest (threats of 'self-assessment') regarding an external auditor's non audit-related services. The risk of 'self-assessment' is understood as a situation where the same contractor provides a service (for example, accounting), and then conducts an external audit expressing an opinion on the reliability of the financial statements. Such risks are assessed at Gazprom Neft PJSC and precautionary measures are taken to reduce such risks to an acceptable level. If the risk of self-assessment cannot be reduced, the Company selects another candidate to provide services.

PricewaterhouseCoopers Audit JSC, the company that audits the financial statements of Gazprom Neft PJSC in accordance with international and Russian financial reporting standards, only provides the Company with audit services. PricewaterhouseCoopers Consulting LLC provides the Gazprom Neft Group with consulting services unrelated to accounting and the preparation of the financial statement. In this case, the principles of the auditor's independence are observed: consulting services are provided by an organisation that is not an auditor of Gazprom Neft PJSC; the employees providing audit services are not involved in providing consulting services; and revenue per one client does not exceed the permissible values.

MANAGEMENT OF POTENTIAL CONFLICT OF INTERESTS

The Company strives to maintain a balance of interests between shareholders and management with their cooperation characterised by a high level of trust, strong culture of business relations and ethical standards. The Company's main shareholder has a sufficient number of votes to pass decisions on a significant number of issues that fall within the purview of the General Meeting of Shareholders and also to form the Board of Directors. Despite this, the Company seeks to utilise tools that feature a high concentration of equity to mitigate risks related to the specific nature of management.

The Company has a transparent ownership structure, the rights and duties of shareholders as well as the procedure for administering property rights are clearly defined in the Company's Charter and internal documents, and information about this is publicly available. The Company adheres to the principle of equal shareholder voting rights and has also established mechanisms to protect voting rights in its internal documents.

The main elements for preventing conflicts at the shareholder level are:

- > Compliance with the order and procedure for making decisions on the most significant issues.
- > Compliance with the voting procedure for related party transactions:
- > Hiring reputable and independent appraisers to value the assets in related party transactions.
- > Ensuring maximum transparency and information openness when preparing for and holding meetings of shareholders as well as the prompt disclosure of information about decisions adopted by the Board of Directors.
- > Disclosing information about related party transactions. According to the Company's financial statement for 2016, related party transactions were concluded as part of regular business activities and had a clear economic rationale. The most common types of transactions are those involving the sale and purchase of oil, gas and petroleum products.
- > Hiring companies from the Big Four auditing firms as external auditors.
- > Establishing mechanisms to protect against the dilution of the Company's value. The procedure for organising and selecting counterparties for the procurement of goods, work and services was carried out in accordance with the approved Company standards, which stipulate that open forms of competitive selection procedures for counterparties are preferable.

Gazprom Neft has approved internal documents (the Corporate Conduct Code and Code of Corporate Governance) which enshrine the values and principles that serve as the basis for the establishment and development of the Company's corporate culture.

The Corporate Conduct Code regulates situations that could involve a conflict of interests, the acceptance of gifts, the use of the Company's assets or resources, stakeholder engagement, social responsibility, the handling of confidential information, the activities of the Corporate Culture and Ethics Working Committee and the operation of the fraud and corruption prevention hotline, among other situations.

Gazprom Neft has established a Corporate Culture and Ethics Working Committee that monitors compliance with the provisions of the Code. The Corporate Culture and Ethics Working Committee includes members of the Management Board and is chaired by the Management Board Chairman.

The Company has approved the necessary internal documents to implement certain principles of the Code, for instance in matters concerning access to confidential information, nondisclosure, HR policy and the development of succession candidates.

The Gazprom Neft Code of Corporate Governance stipulates that members of the Board of Directors must refrain from any actions that would lead or could lead to a conflict of interests and from voting on matters in the outcome of which they have a personal interest, and also must not disclose or use confidential and/or insider information about the Company for their personal interests or the interests of third parties.

The Corporate Conduct Code defines the concept of a conflict of interests and 'zones of control' when managing a conflict of interests, the positions of personnel most susceptible to a conflict of interests and contains examples of situations in which a conflict of interests may arise.

The Company's following personnel positions are most susceptible to a conflict of interests: leadership and management of structural units whose functions include external relations and contacts on behalf of the Company.

The Code contains a reference to the need for Company employees to inform management and the legal service about all instances of a conflict of interests. There is a hotline for employees as well as email addresses and special mailboxes to report violations anonymously. Third parties who are not Company employees, in particular counterparties, may also file reports via the hotline. The Board of Directors reviews the hotline results twice a year, including statistics on the (processed) reports received and violations that are ultimately identified.

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ZONES OF CONTROL

The main 'zones of control' when managing a conflict of interests are:

- > The selection of counterparties and relations with counterparties
- > The system of settlements and payments, particularly those connected with the hiring of agents/intermediaries
- > The hiring of Company personnel
- > The participation of employees in political and government activities
- > Charitable and sponsorship activities
- > Gifts and entertainment expenses

The Company's internal documents require that officials provide information about all affiliates. The Company regularly checks information received from new members of the Board of Directors, in particular concerning the ownership of stakes in subsidiary organisations.

The Company verifies whether members of the Company's Board of Directors and Management Board and their relatives have any conflicts of interests in employment at the Company. According to the Regulation on the Management Board, members of the Management Board are only permitted to serve concurrently on the governing bodies of other organisations with the consent of the Company's Board of Directors.

The Company re-verifies information on a quarterly basis about members of the Company's Management Board and Board of Directors serving at other companies.

The Company collects and processes information about the beneficiary owners of counterparty companies in all agreements concluded by Gazprom Neft PJSC as well as subsidiaries and affiliates.

There were no conflicts of interests among members of the Gazprom Neft Board of Directors and Management Board in 2016.