

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.

- > Organising a system to collect and process information about signs and instances of fraud and corruption – a hotline to prevent fraud, corruption and other violations of the Corporate Conduct Code.
- > Assisting the Company with establishing and monitoring the Integrated Risk Management System (hereinafter – IRMS).
- > Developing recommendations to improve the Company’s activities and eliminate shortcomings based on audits, special inspections, investigations and consultations and convey them to people who can ensure they are properly considered.
- > Monitoring the implementation of measures developed based on audits and investigations to improve the internal control system as well as corporate governance and risk management processes.
- > Interacting with the Company’s audit commissions and external auditors and taking part in inspections of the fulfilment of recommendations from the external auditor and audit commissions.

The Head of the Internal Audit Department reports to the Audit Committee and Board of Directors twice a year about the Department’s performance results for the reporting period and also regularly provides information about other audit issues falling within the Audit Committee’s purview as part of meetings held in person and in absentia.

As part of operational audit projects in 2016, the Internal Audit Department conducted an assessment of the effectiveness of the internal control system based on the following areas: accounting of oil and associated petroleum gas, the purchase of oilfield services, recording the quantity and quality control of petroleum products, the shipping, storage, transshipment and sale of petroleum products, the management of logistical resources and an assessment of processes involving the Company’s financial activities and IT functions.



**GALINA YURYEVA
DELVIG**

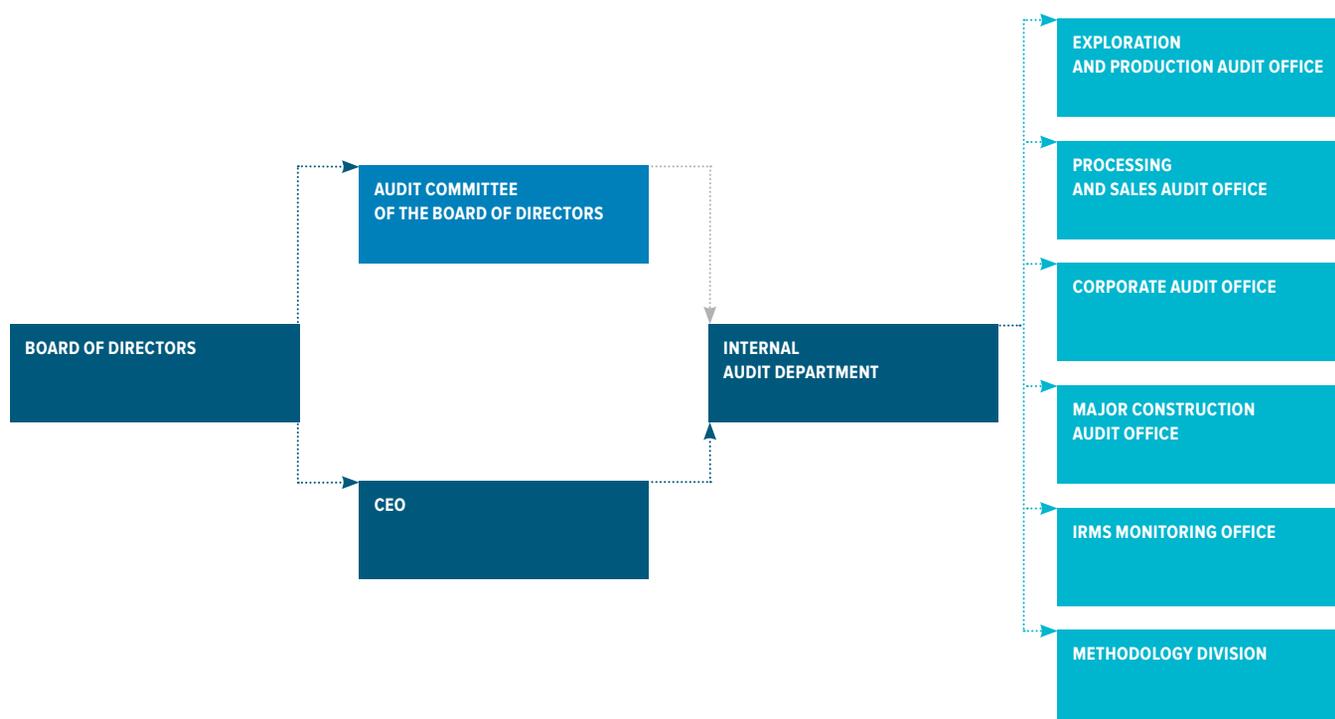
Head of the Internal Audit Department

Born in 1960.
 Graduated from Plekhanov Moscow Institute of National Economy.
 2008 – Head of the Internal Audit Department of Gazprom Neft PJSC.



Interest in charter capital
 (as of 31 December 2016)
Does not own shares

DEPARTMENT STRUCTURE



Taking into account the Internal Audit Department's recommendations, management developed and is implementing a range of measures to improve the effectiveness of the internal control system for business processes and is making amendments to the regulatory and methodological framework.

In addition to audit activities, the Department is developing consulting services that aim to improve the Company's business.

One of the main focuses of the Internal Audit Department's risk management activities in 2016 was methodological support provided to the Company, its subsidiaries and major projects using risk identification and assessment procedures in the form of risk sessions (cross-functional meetings with managers and employees) held in accordance with an approved plan.

As part of efforts to develop the integrated risk management system, Department employees conducted training measures for risk coordinators at subsidiaries and continued work to implement initiatives to integrate the risk management system and business planning processes, manage major investment projects and conduct internal audits (systematisation of information about risks that have been analysed or identified during audits).

EXTERNAL AUDITOR

Each year the Company hires a professional auditing firm that is not associated with the Company through property interests or its shareholders from among the top international auditing companies to audit and confirm the accuracy of its annual financial statements.

The auditor is selected through a tender based on an assessment of the following criteria:

- > The participant's qualification and experience based on the subject for which it is being selected, including experiencing with auditing oil and gas industry companies.
- > Ensuring the protection of the data and requirements of credit agreements (including ratings agencies):
 - Ensuring the protection of the client's information (existence of a Federal Security Service licence)

The Company's auditor is approved by the General Meeting of Shareholders based on a proposal from the Board of Directors. A preliminary assessment of auditor candidates is conducted by the Audit Committee.

- Written endorsement from credit agents on the current credit agreements of Gazprom Neft PJSC confirming that the audit company is an internationally recognised auditor;
- The IFRS statement audited by the audit company was fully used in the prospectus for issuing debt instruments when obtaining a rating from international ratings agencies (Moody's, Fitch, S&P)
- > Financial parameters: cost of services, payment terms.
- > Independence: the auditor's independence is not jeopardised unless revenue per one client exceeds 15% of the auditor's total revenue (according to the requirement of the Russian Ministry of Finance – clause 2.112 'Rules for the independence of auditors and audit organisations' and international requirements – clause 290.219 from the IESBA Code of Ethics).

The Company's auditor is approved by the General Meeting of Shareholders based on a proposal from the Board of Directors. A preliminary assessment of auditor candidates is conducted by the Audit Committee.

In order to assess the quality of work performed by the external auditor, the Audit Committee reviews reports by the external auditor and statements from management and also conducts in-person meetings with representatives of the auditors. The Audit Committee conducted three meetings throughout 2016 with the Company's auditor and considered the following issues:

- > An assessment of the audit report based on the Gazprom Neft PJSC accounting statement for 2015 prepared by PricewaterhouseCoopers Audit JSC.
- > The consideration of the performance results of the external auditor of Gazprom Neft PJSC for 2015.
- > The consideration of the IFRS consolidated statement of Gazprom Neft PJSC for 2015.
- > The candidacy of the external auditor of Gazprom Neft PJSC for 2016.
- > The approaches to the external audit and the plan and procedures for the external audit of Gazprom Neft PJSC for 2016.
- > The determination of the remuneration amount for the auditor's services for 2016.
- > The new form of the audit report for 2016. Key audit issues that will be included in the audit report.
- > The policy for the external auditor's provision of non-audit services to Gazprom Neft PJSC.