

INTERNAL CONTROL AND RISK MANAGEMENT

Internal control

Gazprom Neft's Internal Control Policy approved by the Board of Directors in 2017 is the principal document specifying the aims, objectives, components, organisational and functional principles of the Company's internal controls. Key to internal controls effectiveness is the engagement of the Company's senior management, heads of business units and all employees.

The internal control framework aims to:

- > identify and assess risks that may prevent the Company from achieving its goals;
- > develop, implement, duly execute, monitor and improve the control procedures at any business or management level;
- > inform the relevant governance bodies of material control weaknesses and suggest remedial actions;
- > ensure business continuity and efficiency, along with sustainability and evolution, including timely adaptation to internal and external changes;
- > provide quality informational, methodological and analytical support for the management decision making;
- > facilitate due allocation of responsibilities, powers and functions among internal control units, with no overlapping;
- > continuously improve the control framework with respect to information technology;
- > timely settle conflicts of interest emerging in the course of business.

INTERNAL CONTROL UNITS COMPOSITION AND ALLOCATION OF FUNCTIONS

The composition of the Company's internal control units and the allocation of functions aimed at establishing and maintaining effective internal controls within the Company are as follows:

Gazprom Neft's Board of Directors managing the Company's overall operations has been given the remit to:

- > establish a proper control environment, foster the internal control culture and maintain high ethical standards at all business levels;
- > determine the principles of and approaches to establishing and maintaining the Company's internal controls;
- > analyse and assess the effectiveness of the Company's internal controls, including by way of conducting annual reviews and making improvement recommendations where necessary. The relevant information is provided to shareholders as part of the Company's annual report and the Internal Audit Department's performance report;
- > control the implementation of instructions and resolutions of Gazprom Neft's Board of Directors and shareholders by the Company's executive bodies;
- > control the Company's compliance with the Russian laws, corporate governance and complete and accurate disclosures to stakeholders;
- > approve the Internal Control Policy.



Internal Control
Policy

The Audit Committee's role is to:

- > provide recommendations to Gazprom Neft's Board of Directors on the establishment, maintenance, assessment and improvement of the Company's internal controls, and on other matters within the competence of the Audit Committee (including following the review of the Internal Control Policy);
- > undertake a preliminary review of internal control matters;
- > undertake a preliminary review of the Internal Control Policy (before it is approved by Gazprom Neft's Board of Directors);
- > analyse and assess the effectiveness of the Company's internal controls;
- > review the Company's statements and external audit results to ensure their compliance with the Russian laws, International Financial Reporting Standards, Russian Accounting Standards and other regulations;
- > review the identified or potential misconduct of the Company's employees.

The Company's executive bodies and senior management are tasked with responsibilities to:

- > facilitate the development and ensure the effectiveness of internal controls by approving local regulations on internal control procedures to be adopted by the Company's business units in accordance with their activities;
- > establish a proper control environment, foster the internal control culture and maintain high ethical standards at all business levels, ensuring effective establishment and maintenance of internal controls;
- > allocate powers and duties among and assign responsibilities to the heads of business units with respect to effective development, implementation, maintenance, monitoring and improvement of the Company's internal controls;
- > regularly assess staff performance and training as regards internal controls taking into account changes in the Company's internal and external operating environment.

Heads of business units and employees of the Company act so as to:

- > develop, document, implement, execute, monitor (carry out self-assessment) and improve control procedures within their competence and remit;
- > timely inform their immediate superiors of instances where control procedures become impossible to execute and/or need to be amended due to changes in the Company's internal and external operating environment.

The Company's Internal Audit Department within the Internal Audit and Risk Management Directorate has been given

the remit to:

- > independently and objectively assess the effectiveness of the Company's internal controls based on the risk-oriented approach;
- > make improvement recommendations following audits and monitor their implementation;
- > provide advisory support to stakeholders within the Company with respect to internal controls establishment and maintenance;
- > inform the Company's Audit Committee, executive bodies and, where necessary, Gazprom's business unit responsible for internal audit of internal controls assessment results and improvement suggestions.

The Company's Audit Commission ensures the accuracy of financial statements and other information on the Company's financial and business operations and financial position.



Regulation on the Audit
Commission

AUDIT COMMISSION

The Audit Commission is a permanent body responsible for the monitoring of Gazprom Neft's financial and business operations. It acts in the interests of shareholders and is accountable to the General Meeting of Shareholders.

Pursuant to the Charter and the Regulation on the Audit Commission, it audits the Company's financial and business operations and formulates an independent opinion regarding the Company's standing, which is provided to shareholders at the General Meeting of Shareholders along with Gazprom Neft's annual report.

Remuneration paid to the Audit Commission members is determined by the General Meeting of Shareholders. Annual remuneration paid to the Audit Commission members in 2018 totalled ₹ 4,520 thousand.

INTERNAL AUDIT DEPARTMENT WITHIN THE INTERNAL AUDIT AND RISK MANAGEMENT DIRECTORATE

The internal audit function has been set up to consistently and independently assess the reliability and efficiency of the Company's corporate governance, risk management and internal control frameworks.

In 2017, the Board of Directors approved Gazprom Neft's Internal Audit Policy.

Gazprom Neft's Internal Audit and Risk Management Directorate is functionally accountable to the Audit Committee of the Board of Directors and has a direct administrative reporting line to the Company's CEO.

The internal audit function is held by the Company's Internal Audit Department within the Internal Audit and Risk Management Directorate, with its head being appointed subject to approval by the Board of Directors.

The key objective of the Internal Audit Department within the Internal Audit and Risk Management Directorate is to provide the Board of Directors (through the Audit Committee) and the Company's management (the CEO and the Management Board) with independent, unbiased, reasonable and substantiated guarantees and consultations aiming to improve the Company's performance and achieve the Company's goals by advocating a systematic and consistent approach to assessing and enhancing the efficiency of corporate governance, risk management and internal control processes.

To deliver on its objectives, the Internal Audit Department has been given the remit to:

- > draw up an the Internal Audit Department's plan, including annual and projected audit schedules, and submit them to the Audit Committee for approval;
- > organise and perform due internal audits and consultations across the Company and its entities based on Russian and international internal audit best practices;
- > independently and objectively assess the reliability and efficiency of the Company's risk management, internal control and corporate governance frameworks based on the risk-oriented approach;

AUDIT COMMISSION COMPOSITION

From 9 June 2017 to 08 June 2018:

- Vadim Bikulov
- Galina Delvig
- Anatoly Kotlyar
- Margarita Mironova
- Inna Tolstikova

From 9 June 2018 to 31 December 2018:

- Vadim Bikulov
- Mikhail Vaigel
- Galina Delvig
- Margarita Mironova
- Sergey Rubanov

- > inform the Company's Audit Committee and executive bodies of internal control, risk management and corporate governance frameworks assessment results and improvement suggestions;
- > come up with suggestions to eliminate gaps and violations, identify their causes, produce recommendations to improve the Company's performance and provide this information to the Company's management;
- > provide advisory support to stakeholders within the Company with respect to the establishment and maintenance of internal control, risk management and corporate governance frameworks;
- > where necessary, duly engage independent external advisors and experts (within the Internal Audit Department's approved budget) to provide internal audit related services;
- > ensure completeness and timeliness of improvement measures with respect to internal control, corporate governance and risk management processes suggested based on audit results;
- > gather, consolidate and analyse information required for the Internal Audit Department to deliver on its functions and certain instructions of the Company's management;



**Galina
Delvig**

Head of Gazprom Neft's Internal Audit
and Risk Management Directorate

Shareholding
(as at 31 December 2018)

None

Biographical details

- > Born in 1960. Graduated from G.V. Plekhanov Moscow Institute of National Economy.
- > Since 2008 – head of the internal audit function at Gazprom Neft.

- > establish and improve the Internal Audit Department's operations based on standards;
- > contribute to the development, launch and operation of automated internal audit management systems in the Company and coordinate relevant development efforts in the Company's entities;
- > draw up and implement the Programme to Warrant the Performance and Boost the Quality of Internal Audit approved by the Audit Committee;
- > following audits, ad hoc inspections, investigations and consultations, produce recommendations to improve the Company's performance and eliminate gaps, bringing them to the attention of relevant decision makers;
- > assess the effectiveness of the Company's anti-fraud and anti-corruption efforts;
- > ensure gathering and processing of information on cases and signs of fraud and corruption via the Hotline to Report Fraud, Corruption and Other Violations of Gazprom Neft's Corporate Code of Conduct;
- > ensure completeness and timeliness of measures taken as per instructions of the Company's management following audits.

At least on a semi-annual basis, the Head of the Internal Audit and Risk Management Directorate reports to the Audit Committee and the Board of Directors on the performance of the Directorate during the reporting period, and regularly provides information on other matters within the remit of the Audit Committee at in person and in absentia meetings.

Currently, the Internal Audit and Risk Management Directorate is headed by Galina Delvig.

In 2018, the Internal Audit Department carried out all audit projects planned for the reporting period and covering both key production operations of the Company and its corporate governance, IT and investment activities.

With respect to operational audits, the Internal Audit Department focused on analysing, identifying and assessing systemic high-level areas across the Company's businesses, including production processes (well drilling and development, crude oil and APG accounting), internal control framework for irrecoverable losses and energy efficiency management, accounting and sales of crude oil and petroleum products, current and capital repairs at refineries. In 2018, the Internal Audit Department also completed audits of cross-functional business areas, including the assessment of internal controls effectiveness with respect to Gazprom Neft's financial, insurance, IT and investment activities. In addition, the Internal Audit Department audited the financial (accounting) statements under the competence of audit commissions.

Based on the Internal Audit Department's recommendations, the management has developed a set of measures to enhance internal controls effectiveness as regards business processes and has been working on their implementation along with the amendment of internal regulations and procedures.

On top of audits, the Internal Audit Department also focused on extending consultancy services to improve the Company's performance.

EXTERNAL AUDITOR

In June 2018, the Annual General Meeting of Shareholders re-elected PwC Audit (PwC) as the Company's auditor.

In 2018, the Board of Directors reviewed the performance assessment of Gazprom Neft's external auditor. This was done based on the Russian Audit Council's recommended approaches to determining non-cost criteria to assess audit services (auditor's approach to audit, expertise and experience, engagement of extra experts, audit timeline and big data technologies).

AUDITOR ASSESSMENT RESULTS

PwC uses a risk-oriented approach with a focus on auditing reporting areas that may contain misstatements as a result of risk exposure. Audit stages are automated within dedicated Aura software. This approach ensures adequate compliance of the audit with applicable standards and reasonable efforts to support the audit process from Gazprom Neft's part.

The team engaged by PwC have a broad professional expertise required to audit and review as necessary. As regards various matters arising during the audit, the auditor made extensive use of international industry best practices, fully meeting Gazprom Neft's expectations.

The audit schedule was in advance aligned with the Company's closing schedule and included a set of measures to shorten the audit timeline through shifting to a single structured format of working documents and consistent formats for detailed testing of control procedures with Gazprom Neft.

As part of the audit, PwC used a number of big data technologies as a way to test data completeness, along with special tests to assess accounting entries while also minimising requests to provide initial documents.

To assess the external auditor's performance, the Audit Committee studied their reports and met with their representatives, and also reviewed the management's statements. In 2018, the Audit Committee met with the Company's auditor four times to discuss the following:

- > review of the Gazprom Neft Group's IFRS consolidated financial statements for 2017, and 3M, 6M and 9M 2018;
- > findings of Gazprom Neft's external audit in 2017;
- > selection of Gazprom Neft's auditor for 2018;
- > approaches to Gazprom Neft's external audit, and relevant schedule and procedures for 2018;
- > assessment of performance by Gazprom Neft's external auditor for 2017;
- > review of the auditor's opinion on Gazprom Neft's accounting (financial) statements for 2017 issued by PwC;
- > implementation of the recommendations of Gazprom Neft's external auditor following the 2017 results audit;
- > external auditor's fee for 2018.

The Board of Directors determined external auditor's fee for auditing Gazprom Neft's financial (accounting) statements for 2018 as ₺ 38,985 thousand (net of VAT), including:

- > ₺ 6,060 thousand for auditing Gazprom Neft's statements in accordance with the Russian Accounting Standards (RAS);
- > ₺ 32,925 thousand for auditing consolidated statements in accordance with the International Financial Reporting

PwC auditing Gazprom Neft's financial statements in accordance with the International Financial Reporting Standards and the Russian Accounting Standards only provides the Company with audit services. PricewaterhouseCoopers Advisory provides the Gazprom Neft Group with consultancy services bearing no relation to accounting and financial reporting. So, the auditor meets the independence criteria:

- > consultancy services are provided by an organisation other than Gazprom Neft's auditor;
- > employees providing audit services are not engaged in advisory services;
- > revenue per client is within the permitted amounts.

The Company's financial statements are audited in accordance with the International Financial Reporting Standards and the Russian Accounting Standards

MANAGEMENT OF POTENTIAL CONFLICTS OF INTEREST

The Company is committed to balancing the interests of its shareholders and management interacting with a high level of trust, business culture and ethics. The Company's majority shareholder has enough votes to resolve on many matters falling within the remit of the General Meeting of Shareholders and to appoint the Board of Directors. Nonetheless, the Company makes efforts to decrease risks related to governance, where most of the share capital is held by a single shareholder.

The ownership structure is transparent. Rights and obligations of shareholders along with the procedure to exercise ownership rights are clearly specified in the Company's Charter and by-laws, with the information being publicly accessible. The Company ensures equality of shareholder voting rights and provides relevant protection mechanisms specified in the by-laws.

Key conflict prevention measures at a shareholder level:

- > observing the decision making procedure as regards the most material matters;
- > observing the procedures for voting and interested-party transaction notifications;
- > engaging independent and well-recognised appraisers to determine the value of non-cash property under interested-party transactions;
- > ensuring maximum transparency and information disclosure when arranging and holding General Meetings of Shareholders;
- > timely disclosing the Board of Directors' resolutions;
- > disclosing information on related-party transactions. As per the Company's financial statements for 2018, related-party transactions were entered into in the ordinary course of business and had clear economic rationales. Most frequent transactions included sale and purchase of crude oil, gas and petroleum products;
- > engaging a Big Four company as an external auditor;
- > providing for anti-dilution protection mechanisms. Contractor selection procedures with respect to procurement of goods, works and services comply with the Company's approved standards favouring open competitive procedures, providing shareholders with reasonable assurance that the procurement process is duly controlled and Gazprom Neft's assets are used effectively and efficiently. In addition, this practice is included in the Company's by-laws ensuring its continuity in the future.

Gazprom Neft has put in place by-laws (the Corporate Code of Conduct and the Corporate Governance Code) setting out values and principles underpinning the Company's corporate culture. The Corporate Code of Conduct covers situations of potential conflict of interest: acceptance of gifts, use of the Company's assets and resources, stakeholder engagement and social responsibility, use of confidential information, activities of the Corporate Culture and Ethics Working Committee and operation of the hotline to report fraud and corruption.

Gazprom Neft's Corporate Governance Code sets forth the following duties for members of the Board of Directors:

- > refrain from any actions that will or may result in a conflict of interest;
- > abstain from voting on matters where they have a personal interest;
- > refrain from disclosing or using for personal or third-party gain any confidential and/or insider information about the Company or the Gazprom Neft Group.

Gazprom Neft has established the Corporate Culture and Ethics Working Committee to ensure compliance with the Corporate Code of Conduct. The Corporate Culture and Ethics Working Committee includes members of the Management Board and is headed by the Chairman of the Management Board. To complement certain provisions of the Code, the Company has approved some specific by-laws, e.g. on access to confidential information, trade secrets, HR policy and talent pool development.



Corporate
Code of Conduct

The Corporate Code of Conduct defines conflict of interest, determines control areas for conflict of interest management and includes illustrative situations of potential conflict of interest. It also specifies the positions of personnel most exposed to conflicts of interest: management and heads of business units responsible for external communications on behalf of the Company.

Key control areas for conflict of interest management include:

- > contractor selection and engagement;
- > settlements and payments, especially involving agents/intermediaries;
- > staff recruitment;
- > political and public activities of employees;
- > philanthropy and sponsorship;
- > gifts and hospitality expenses.

The Code includes a provision requiring the Company's employees to inform the management and the legal function of any and all conflicts of interest. There is a hotline, an email address and dedicated mailboxes for employees to anonymously report any violations. The Company's hotline can be also used by third parties, including contractors. Twice a year, the Board of Directors reviews the results of hotline operation, including the statistics on messages received and processed and violations subsequently identified.

In 2018, the Extraordinary General Meeting of Shareholders approved the new version of the Regulation on the Board of Directors of Gazprom Neft, which now includes a section on identification and prevention of conflicts of interest on the Board of Directors specifying procedures to avoid the same:

- > where a director has a potential conflict of interest, including personal interest in a transaction made by the Company, they shall inform the Board of Directors thereof by sending notice to the Chairman or the Secretary;
- > information on a conflict of interest, including personal interest in a transaction, shall be included in the materials provided to the members of the Board of Directors at a meeting;
- > where it is justified by the nature of the matter discussed or the conflict of interest involved, the Chairman of the Board of Directors may suggest that the director having the conflict of interest not be present at the discussion;
- > directors and their related parties shall not accept gifts from persons promoting their interests in the decision making process or otherwise use any direct or indirect benefits offered by such persons (excluding symbolic gifts dictated by etiquette or souvenirs offered at formal events).

When hiring a member of the Management Board, the Company runs a check on them and their relatives for conflicts of interest. Pursuant to the Regulation on the Management Board, having overlapping positions in the Management Board and in governance bodies of other organisations or working on a part-time basis is subject to approval by the Board of Directors.

The Company quarterly checks information on the participation by members of the Management Board and the Board of Directors in other companies. In addition, the Company gathers and processes information on contractors' beneficial owners under all contracts signed by Gazprom Neft and its subsidiaries.

In 2018, members of Gazprom Neft's Board of Directors and Management Board had no conflicts of interest.

ANTI-FRAUD AND ANTI-CORRUPTION POLICIES AND PROCEDURES

The framework anti-corruption regulation for the Company and its subsidiaries is the Anti-Fraud and Anti-Corruption Policy approved in 2014.

The Policy defines fraud and other terms related to fraud prevention. Based on this Policy, the Company's senior management sets a single ethical standard of unacceptability of corruption of any type and form. The Policy outlines methods and procedures employed by the Company to combat fraud and corruption. These include a hotline, official investigations and prosecution with respect to identified cases of fraud.

Special attention is paid to corruption risks inherent to the oil industry. The Policy has a section on the Company's business processes most exposed to fraud: interaction with government officials, acceptance and offering of gifts, hospitality expenses, philanthropy and sponsorship, financial relations with third parties.

The Anti-Fraud and Anti-Corruption Policy requires that the Company's employees be instructed on the zero tolerance principles as regards fraud and on the fundamentals of the applicable laws.

D&O INSURANCE

Gazprom Neft has maintained liability insurance for the Group's directors and officers since 2011. It provides protection for the Company's directors and managers against potential third party lawsuits arising out of accidental and/or erroneous actions of the officers. The D&O policy covers legal costs incurred by directors in court and financial expenses arising from any claims lodged against directors in connection with the performance of their responsibilities.

The overall limit of the Company's insurance coverage and extensions is € 47.6 m. Additional liability limit for independent directors is € 1.9 m. The insurance has worldwide coverage.

Gazprom Neft selects insurers based on the Company's tender procedures. In 2018, the corporate insurance policy was provided by SOGAZ.



Anti-Fraud
and Anti-Corruption
Policy

INFORMATION POLICY AND INFORMATION DISCLOSURE

The Company is committed to providing stakeholders, in a timely and regular manner, with all the relevant information necessary to make informed decisions on participating in the Company or performing any other action.

The Company's information policy is implemented by the executive bodies. Compliance with the information policy is monitored by the Board of Directors.

In 2018, the Audit Committee of the Board of Directors reviewed the implementation of the Company's information policy, focusing, among other things, on information disclosed by Gazprom Neft to third parties, including analytical and rating agencies.

The Company's official website provides the following:

- > the Charter and by-laws;
- > information on the shareholding structure;
- > information on the governance bodies;
- > information on the auditor and registrar;
- > other information to be disclosed pursuant to the applicable laws and the Company's by-laws, including Gazprom Neft's annual reports.

There is a dedicated webpage containing answers to most common questions of shareholders and investors, consistently updated investor calendar, five-year dividend history, key financial and operating results, contact details and other information that may be useful to shareholders and investors.

Gazprom Neft holds regular presentations and meetings of executive officers and other key managers with investors and analysts, including meetings dedicated to the disclosure of accounting (financial) statements or key investment projects and strategic development plans of the Company.

The Company's website also provides information on subordinate organisations, listing them by type of activity and giving links to their websites, as recommended by the Russian Corporate Governance Code.



Gazprom Neft's by-laws
available on the corporate
website



Information
for shareholders
and investors

Pursuant to the Regulation on Information Disclosure, the Company's disclosures on the Internet include releases on the website of a security market information provider (Interfax-CIDC).

A key principle of Gazprom Neft's corporate governance is information transparency. The Company is consistently recognised as a leader in information disclosures by Russian and international awards.

The Russian XXI Annual Report Competition organised by the Moscow Exchange and the RCB Media Group awarded Gazprom Neft first prize in four nominations. Gazprom Neft's annual report for 2017 was named the best among P 200+ bn market cap companies and among oil and gas companies. In addition, it was recognised for its communication effectiveness. Moreover, the Company was named first by information transparency on the corporate website and second by corporate governance disclosures.



The Company's webpage
 on Interfax-CIDC's resource

Types of disclosures in 2018

Type of disclosure	Number
On bond issues	7
On agendas and resolutions by the issuer's governance bodies	113
On reporting disclosures of various types (quarterly reports, lists of affiliated persons, annual reports, consolidated financial statements, annual accounting statements)	18
On transactions made by the issuer and its subordinate organisations	24
On changes in shareholdings in other organisations	4
On yields accrued and paid on issue-grade securities	33
On the reorganisation/liquidation of subordinate organisations	14
Other	27
TOTAL	240