

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The Internal Control Policy of Gazprom Neft PJSC, approved by the Board of Directors in 2017, is the principal document specifying goals, objectives, components, and principles of organisation and functioning of the company internal-control system. Efficient operation of the internal control system is based on the involvement of top managers, heads of structural units, and all employees of the company.

The internal control system aims to:

- identify and assess risks that may prevent the company from achieving its goals;
- develop, adopt, properly execute, monitor and improve control procedures at all levels of business operation and the company management;
- inform the relevant governance bodies of material control weaknesses and suggest remedial actions;
- ensure business continuity and maximum efficiency, along with sustainability and evolution, including timely adaptation to changes in the internal and external environment;
- provide high-quality informational, methodological and analytical support for the management decision-making;
- ensure proper allocation of responsibility, authority, and functions among internal control units, with no overlapping of functions;
- 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 internal control units in the company, and allocation of functions related to organising and maintaining the efficient work of the internal control system among them, are described below.

The Board of Directors of Gazprom Neft PJSC implements the following functions, as part of the general governance of the company business:

- establishing a proper control environment, adopting the internal control culture, maintaining high ethical standards at all levels of the company activity;
- specifying principles and approaches to organisation and operation of the company internal control system;
- analysing and assessing the efficiency of organisation and operation of the company internal control system, including annual consideration of respective issues, and preparing recommendations to improve it (if needed). Information on efficiency of the internal control system is disclosed to shareholders as part of the company Annual Report, and as part of the report of the Gazprom Neft PJSC Internal Audit Department on the company performance;
- monitoring of implementation of orders and resolutions of the Gazprom Neft PJSC Board of Directors and shareholders by the company executive bodies;
- controlling the company compliance with laws of the Russian Federation, corporate governance, and disclosure of complete and correct information on the company to stakeholders;
- approving the Internal Control Policy.

The Audit Committee implements functions aimed at:

- preparing recommendations for the Board of Directors of Gazprom Neft PJSC regarding organisation, operation, performance assessment and improvement of the company internal control system, and other issues within the competency of the Audit Committee (including preparation of recommendations after considering the Internal Control Policy);
- ensuring preliminary consideration of internal control issues;
- ensuring preliminary consideration of the Internal Control Policy (before approval by the Gazprom Neft PJSC Board of Directors);
- analysing and assessing the efficiency of the internal control system operation;
- analysing compliance of the company statements and external audit results with the Russian laws, international financial reporting standards, Russian accounting standards, and other regulations;
- considering detected or assumed facts of fraud on the part of the company employees.

Executive bodies and senior management of the company are implementing functions aimed at:

- organising development and efficient operation of the internal control system, through approval of local regulations regarding the content and rules for implementing internal control procedures by the company structural subdivisions within their lines of business;
- establishing the proper control environment, adopting the internal control culture, maintaining high ethical standards at all levels of the company activity, which ensures efficient organisation and operation of the internal control system;
- allocating authority, duties and responsibility among heads of structural subdivisions, related to establishing, adopting, maintaining, monitoring and improving the efficient organisation and operation of the company internal control system;
- conducting regular assessment of the company employees performance and personnel training, in the field of internal control due to changes in internal and external conditions of the company operation.

Heads of structural units and the company employees are implementing functions aimed at:

- developing, documenting, adopting, executing, monitoring (conducting self-assessment) and improving control procedures, as part of respective competencies within their responsibility;
- reporting to immediate supervisors in a timely manner about the cases when it was impossible to carry out control procedures, and/or when organisation of the control procedures needs to be changed, due to changes in internal or external conditions of the company operation.

Membership of the Audit Committee

From 9 June 2018 through 13 June 2019:

- Vadim Bikulov;
- Mikhail Veigel;
- Galina Delvig;
- Margarita Mironova;
- Sergey Rubanov.

From 14 June 2019 through 31 December 2019:

- Vadim Bikulov;
- Mikhail Veigel;
- Galina Delvig;
- Margarita Mironova;
- Sergey Rubanov.

The Internal Audit Department, part of the Internal Audit and Risk Management Directorate, is performing the following functions:

- doing independent and objective assessment of the efficiency of the company internal control system organisation and operation, based on the risk-focused approach;
- developing and monitoring adoption of recommendations for eliminating drawbacks revealed during audits;
- providing advice for stakeholders within the company, in relation to organisation and operation of the company internal control system;
- reporting about the results of the internal control system assessment, and of proposals for its improvement to the Audit Committee, the company executive bodies, and (if needed) the Gazprom PJSC structural subdivision responsible for internal audit.

The company Audit Commission is controlling preparation of accurate financial statements, and other information on the company financial and business operations, and its financial position.

Audit Committee

The Audit Committee is a permanent body controlling the Gazprom Neft financial and business operations. It acts for the benefit of shareholders, and is accountable to the General Meeting of Shareholders.

In accordance with the Charter and the Regulation on the Audit Committee, the Committee inspects the company financial and business operations, and forms an independent opinion regarding the company position. It presents its conclusions to shareholders at the General Meeting of Shareholders, in the form of an opinion attached to the Annual Report of Gazprom Neft.

Remuneration to members of the Audit Committee is paid on the basis of a resolution of the General Meeting of Shareholders.

₽4,520,000

annual remuneration paid to the Audit Committee members in 2019

The Internal Audit Department within the Internal Audit and Risk Management Directorate

To conduct systematic independent assessment of reliability and efficiency of the corporate-governance, risk-management and internal-control system, the company performs internal audit.

The Internal Audit and Risk Management Directorate of Gazprom Neft PJSC is functionally accountable to the Audit Committee of the Board of Directors, and has a direct administrative reporting line to the company CEO.

The internal audit function is held by the Internal Audit Department, which is part of 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 management (the CEO and the Management Board) with independent, unbiased, reasonable and substantiated guarantees and consultations aiming to improve the company performance and achieve the company 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 risk management, internal control and corporate governance frameworks based on the risk-oriented approach;
- inform the company 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 performance and provide this information to the company 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 management;
- 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 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 performance and eliminate gaps, bringing them to the attention of relevant decision makers;
- assess the effectiveness of the company 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 management following audits.

The head of the Internal Audit and Risk Management Directorate reports to the Audit Committee and the Board of Directors about the Directorate performance for a reporting period at least once in six months, and regularly provides information on other issues within the Audit Committee competency at current meetings, in-person and in absentia.

In 2019, the Internal Audit Department completed all audit projects scheduled for the reporting period, in the fields of corporate governance, IT and investing activities, and in the main production lines of the company business. As part of those projects, the Internal Audit Department paid special attention to analysing, detecting and assessing systemic high-level areas for various lines of the company business.

For instance, the internal audit was focused on production processes, including geological exploration and resource base development, well intervention, oil and APG metering, and energy efficiency management. Moreover, the auditors assessed the internal control system used for processing and selling crude oil and petroleum products, and qualitative and quantitative control of petroleum products.

The Internal Audit and Risk Management Directorate is headed by G. Delvig.



GALINA DELVIG

Interest in the authorised capital
 (as at 31 December 2019)

None

BIOGRAPHICAL DETAILS

Born in 1960.
 Education: Plekhanov Moscow Institute of National Economy
 Since 2008, she has headed the internal audit function of Gazprom Neft PJSC.
 Ms. Delvig is a member of audit commissions of Gazprom Neft PJSC, Oil and Gas Company SLAVNEFT, Tomskeft VNK JSC, and FC Zenit JSC

In 2019, the Internal Audit Department also completed the audits of cross-functional lines of the company business, including those related to assessing performance of the internal control system used for processes in finance, IT, HSE and investment activities of Gazprom Neft PJSC.

In addition, the Internal Audit Department conducted the audit of financial (accounting) statements as part of activity 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.

The Board of Directors determined the amount of payment for the audit of financial (accounting) statements of Gazprom Neft PJSC for 2019 at the level of

₽27,300,000
(excluding VAT)

External auditor

To validate and confirm its annual financial statements, the company annually engages a professional audit firm, selected from the largest international audit companies, which has no property interest in the company or its shareholders. The main principles of organising and conducting external audit, the procedure and criteria for selecting auditors, and approaches to ensuring that the auditors comply with the principles of independence and absence of conflicts of interest, are formalised in the External Audit Policy of Gazprom Neft PJSC.

Auditors are selected on the basis of a tender, based on assessment in accordance with the following criteria:

- participant qualification and expertise in the selection area, including the experience of auditing oil and gas companies;
- ensuring data protection and compliance with requirements of loan agreements (including rating agencies);
- financial parameters (cost of services, payment conditions);
- independence (in accordance with the requirement of the Ministry of Finance of the Russian Federation – Clause 2.112 of the Rules for Independence of Auditors and Audit Organisations, and with the international requirements – Clause 290.219 of the IESBA Code of Ethics, the independence of an auditor is not violated, if the revenue per customer does not exceed 15% of the auditor's total revenue).

The company auditor is approved by the General Meeting of Shareholders based on the proposal from the Board of Directors. Candidates for becoming an audit organisation for the company undergo preliminary assessment by the Audit Committee.

In June 2019, the annual General Meeting of Shareholders selected Financial and Accounting Consultants Limited Liability Company (FBK LLC) as an auditor of financial statements (RAS and IFRS) for 2019.

In over 28 years of cooperation between FBK and Russian business leaders in all key sectors of economy, the company has accumulated unique practical experience of implementing major projects, such as the projects for the fuel and energy sector. Ongoing collaboration with representatives of the oil and gas industry provides the company specialists with deep understanding of current industry problems and challenges. FBK has been cooperating with Gazprom PJSC since 1996. As part of consulting services provided to the Gazprom Group organisations, FBK specialists have completed over 250 major projects and provided numerous consultations. It has implemented more than 85 projects on preparing feasibility studies, cost-effectiveness analysis of investment projects, developing financial models for enterprises, business plans and development strategies.

To assess the quality of an external auditor work, the Audit Committee considers the external auditor reports, management representations, and holds in-person meetings

with the auditor representatives (if needed). Throughout 2019, the Audit Committee considered the following issues related to external audit:

- on assessing candidates for becoming the Gazprom Neft PJSC auditors, and providing recommendations for the Gazprom Neft PJSC Board of Directors;
- on the results of the external audit for 2018;
- on a candidate for the Gazprom Neft PJSC auditor for 2019;
- on assessing the Auditor's opinion about financial (accounting) statements of Gazprom Neft PJSC for 2018 prepared by PricewaterhouseCoopers Audit JSC;
- on the results of assessing the Gazprom Neft PJSC external auditor work for 2018;
- on considering the External Audit Policy of Gazprom Neft PJSC and its subsidiaries and organisations;
- on determining the amount of payment for the auditor services for 2019;
- on preparing proposals for a competition commission to select an audit organisation to carry out the mandatory annual audit of Gazprom Neft PJSC;
- on the results of the action plan to eliminate drawbacks detected in the course of Gazprom Neft PJSC external audit for 2018.

The Board of Directors determined the amount to be paid for the audit of the Gazprom Neft PJSC financial (accounting) statements for 2019 at the level of ₽27,300,000 (excluding VAT).

Management of potential conflict 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 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 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:

- following the procedure for decision-making on the most significant issues;
- following voting procedures for related-party transactions;
- engaging independent and well-recognised appraisers to determine the value of non-cash property under related-party transactions;
- ensuring maximum transparency and information disclosure when arranging and holding General Meetings of Shareholders, and timely disclosing the Board of Directors' resolutions;
- disclosing information on related-party transactions. As per the Company's financial statements for 2019, 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;
- organising mechanisms to prevent dilution of the company value. Thus, contractors for purchasing products, works and services are selected

in accordance with the Regulation on Procurement approved by the Board of Directors, which is mandatory for all Gazprom Neft subsidiaries.

Gazprom Neft approved by-laws (the Corporate Code and the Corporate Governance Code) formalising values and principles, which are the basis for forming and developing corporate culture in the company.

The Corporate Code regulates situations when conflicts of interests may arise: accepting gifts, using the company assets and resources, interaction with stakeholders, and handling of confidential and insider information.

To implement individual Code principles, the company approved the required by-laws, for instance, in relation to access to confidential information, trade secrets, HR policy and succession pool development.

The Gazprom Neft Corporate Governance Code requires that members of the Board of Directors must refrain from actions that cause, or may cause, conflicts of interests, from voting on issues related to their personal interest, and must not disclose the confidential and (or)

insider information on the company and use it in their personal interests or the interests of third parties.

The Corporate Code defines a conflict of interests, control zones in managing conflicts of interests, positions of personnel that are most sensitive to conflicts of interests, and contains examples of situations when conflicts of interests may arise.

Gazprom Neft also has the Ethics Committee, which controls compliance with the Company Code provisions. The Ethics Committee includes members of the Management Board under the supervision of the Chairman of the Management Board.

The main control zones in managing conflict of interest are the following:

- selecting contractors, relations with contractors;
- a settlement and payment system, especially involving agents/mediators;
- recruiting the company personnel;
- participation of employees in politics and state activities;
- charity and sponsorship;
- gifts and entertainment expenses.

Executives and managers of structural units, who are engaged in external relations and contacts on behalf of the company, are most likely to get involved in conflict of interest.

The Code states that the company employees are to inform their immediate supervisors and the Corporate Protection Directorate about all cases of corruption, fraud, theft, and conflict of interest (including suspected ones). The company has a hotline, an email address and special letter boxes for employees to report on violations anonymously. Messages to the company hotline may also be sent by third parties who are not the company employees, for instance, its contractors. The Board of Directors considers the hotline performance twice a year, including statistics on received (processed) messages and detected violations. In 2019, the company hotline received 243 messages.

In December 2018, the extraordinary General Meeting of Shareholders approved the new version of the Regulation Governing the Board of Directors of Gazprom

Neft PJSC. The Regulation was supplemented with the section «Detection and Prevention of Conflicts of Interests for Members of the Board of Directors», specifying the procedures for preventing conflicts of interest in the Board of Directors:

- in case of a potential conflict of interest for a member of the Board of Directors, including the interest in a transaction made by the company, that member of the Board of Directors must send a notification to the Chairman or Secretary of the Board of Directors;
- information on the conflict of interest, including the interest in a particular transaction, are to be included in materials submitted to the members of Board of Directors at a meeting;
- The Chairman of the Board of Directors may offer the member of the Board of Directors, who has the respective conflict of interest, not to attend the discussion of the relevant issue at the meeting, when the nature of the issue discussed or specifics of the conflict of interest require that;



By-laws
on the company
website

- members of the Board of Directors and their related parties must not accept gifts from parties interested in decision-making, and use any other direct or indirect benefits provided by such parties (except for symbolic signs of appreciation, which are common courtesy, or souvenirs presented during official events).

Moreover, the company inspects members of the Management Board and their relatives to identify conflicts of interest, when they are employed by the company. In accordance with the Regulation on the Management Board, members of the Management Board may participate in governance bodies of other organisations, or combine jobs only with the consent of the Board of Directors.

The company checks the information on participation of members of the Management Board and the Board of Directors in other companies on a quarterly basis.

The company collects and processes information on beneficial owners of contractors under all contracts concluded by Gazprom Neft PJSC and its subsidiaries.

In 2019, no conflicts of interest were detected among the members of the Gazprom Neft Board of Directors and the Management Board.

Anti-fraud and anti-corruption policies and procedures

The basic anti-corruption by-law of the company and its subsidiaries is the Anti-Fraud and Anti-Corruption Policy adopted 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: interacting with officials, accepting and making gifts, entertainment expenses, charity and sponsorship, and financial arrangements with third parties. The Policy also provides for training of the company employees in zero tolerance to fraud and the basics of applicable legislation.

The Deputy CEO for Security and the head of the Internal Audit and Risk Management Directorate report regularly to the company executives on anti-fraud and anti-corruption issues.

D&O insurance

Since 2011, Gazprom Neft has provided the Directors And Officers Liability Insurance (D&O). It protects the company directors and executives from possible claims of third parties, that may be made as a result of unintended and/or erroneous actions of the company officers. The D&O policy covers expenses related to legal defence of directors, and the expenses incurred in connection with any claims brought against them, in relation to performance of their duties.

The total limit for all insurance covers and extensions: €47.6 million. Additional liability limit for independent directors: €1.9 million. The insurance cover is valid in all countries of the world.

The company selects an insurer on the basis of accepted tendering procedures. In 2019, the insurer was Sogaz JSC, based on the corporate insurance policy.



Information
for investors
and shareholders

Information policy and information disclosure

The company seeks to report on its activities to all stakeholders in a timely manner and regularly, within the scope required to make informed decisions regarding participation in the company or other actions that may have an impact on the company financial and business operations.

The Company's information policy is implemented by the executive bodies. Compliance with the information policy is monitored by the Board of Directors. The Gazprom Neft executive bodies are responsible for implementing the information policy. In 2019, the Audit Committee of the Board of Directors considered implementation of the company information policy, for instance, the information disclosed by Gazprom Neft PJSC to third parties, including analytical and rating agencies.

The company official website provides the following:

- the Charter and by-laws;
- information on the shareholding structure;
- information on the governance bodies;
- information on the independent 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 .

The company has a special page on its website with answers to common questions from shareholders and investors, a regularly updated investor calendar, the dividend history for the last five years, key performance indicators, contact details, and other useful information.

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).

Transparency is one of the most important corporate governance principles of Gazprom Neft PJSC. The company is a stable leader in information disclosure at Russian and international competitions.