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Rosneft Board of Directors
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COMPANY POLICY

ON INTERNAL AUDIT

№ P4-01 P-02

VERSION 1.00

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INTRODUCTORY PROVISIONS

INTRODUCTION

Company Policy "On Internal Audit" (the "Policy") defines the goals, objectives and scope of authority of the internal audit function within the Company, and is the framework document in the area of internal audit in Rosneft and the Group Companies.

This Policy is developed in accordance with the Civil Code of the Russian Federation, Federal Law No. 208-FZ dated 26 December 1995, "On Joint Stock Companies" other normative legal acts of the Russian Federation, Corporate Governance Code recommended by Letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014, Methodological Recommendations on Organization of Internal Audit in Joint Stock Companies with Equity Participation of the Russian Federation approved by Order of the Federal Agency for State Property Management /Rosimuschestvo/ No. 249 dated July 4, 2014, Guidelines for preparation of the Regulations on Internal Audit, approved by the Government of the Russian Federation as part of Orders of the President of the Russian Federation № Pr-3013 dated December 27, 2014, International Standards for the Professional Practice on Internal Auditing, Code of Ethics of the Institute of Internal Auditors, Charter of Rosneft, Code of Rosneft Corporate Governance No. P3-01 KS-01, Code of Business and Corporate Ethics of Rosneft № P3-01.06 P-01, and Company Policy "Risk Management and Internal Control System" No. P4-01 P-01.

GOALS

This Policy expresses the position of the Company in the area of internal audit, and formalizes uniform approaches and principles applicable to that area.

OBJECTIVES

The objectives of this Policy shall be to:

- Formulate goals, objectives and functions in the area of internal audit;
- Define the principles governing the establishment and management of internal audit in the Company;
- Describe interactions between internal audit and the External Auditor, Revision Commission of Rosneft, subjects of the Risk Management and Internal Control System, corporate governance of the Company, and state supervisory authorities;
- Designate the key internal audit processes and approaches to assuring proper quality control and evaluation of internal audit operations.

SCOPE OF APPLICATION

This Policy shall be binding on employees of:

- All Rosneft structural units;

- All Rosneft subsidiaries in which the respective Company charters or shareholder or other types of agreements between the partner companies do not specify a special procedure for the shareholders/participants' enjoyment of their rights, including those for the Group Company governance.

This Policy shall be of recommendatory nature for employees of Rosneft controlled companies and the Group Companies in which Rosneft or its subsidiaries own shares/interest in the charter capital jointly with partner companies, and/or in which the respective charters or shareholder or other types of agreements specify a special procedure for the shareholders/participants' enjoyment of their rights, including those for the Group Company governance.

This Policy shall become binding on Rosneft subsidiary and controlled companies, as well as on any other companies where Rosneft has any direct or indirect equity participation, after it has been put into force by any such company pursuant to its Charter with due account for the provisions of the respective joint activity contracts or agreements and in accordance with its established procedure.

Directive documents, local normative and other internal documents may not contain any provisions inconsistent with this Policy.

EFFECTIVE TERM AND MODIFICATION PROCEDURE

This Policy shall be a standing local normative document.

This Policy shall be approved within Rosneft by resolution of the Board of Directors of Rosneft based on preliminary recommendations issued by the Audit Committee of the Board of Directors of Rosneft, and shall be put into effect within Rosneft by Rosneft Order.

This Policy shall be deemed to have become null and void within Rosneft upon adoption of the appropriate resolution by the Board of Directors of Rosneft. Amendments to this Policy shall be approved by resolution of the Board of Directors of Rosneft and put into effect by Rosneft Order.

This Policy may be modified at the initiative of the Board of Directors of Rosneft, the Audit Committee of the Board of Directors of Rosneft, the Sole Executive Body of Rosneft, the Management Board of Rosneft, and the Head of the Internal Audit Service of Rosneft.

The grounds for introduction of amendments to the Policy shall be as follows: changes in the legislation of the Russian Federation, changes in the organizational structure or powers of managers, changes in objectives of the internal audit, tasks and functions of the internal audit, results of quality assessment of the internal audit activities, changes in the corporate system of internal communications, changes in processes within which information is brought to notice of employees, etc.

The Head of Internal Audit Service of Rosneft shall be responsible for updating this Policy in Rosneft.

The fulfillment of requirements set forth in this Policy shall be controlled by the Sole Executive Body of Rosneft.

1. TERMS AND DEFINITIONS

TERMS AND DEFINITIONS OF THE CORPORATE GLOSSARY

INTERNAL AUDITOR – employee of internal audit of the Company who has all knowledge and skills required to audit relevant business areas.

INTERNAL AUDIT CONSULTATION – result of provision by internal audit of consultations, advice and recommendations on the basis of internal audit opinions with a view to provide requisite assistance and improve corporate governance, risk management and internal audit processes and exclude assumption by Internal Auditors of responsibility for management decisions.

CORPORATE GOVERNANCE – system of relations between executive bodies of a joint stock company, its board of directors of Rosneft, shareholders, Group Companies, and other stakeholders. Corporate governance is a tool which is used to define the goals and objectives of the company and the means to attain them, and ensure efficient control over the operations of the company on the part of shareholders and other stakeholders.

RISK – combination of the probability of an undesired event and its potential consequences, threat of an adverse impact of an accidental event on achievement of the Company objectives.

INTERNAL CONTROL SYSTEM – system of organizational measures, policies, instructions, as well as control procedures, aimed at minimization of risks of business processes, corporate culture standards and actions, undertaken by subjects of the risk management and internal control system for the purpose to ensure proper conduct of business activity: to ensure financial stability of the Company, achievement of an optimal balance between growth in its value, profitability and risks of business processes for well-ordered and effective conduct of business activity, safeguarding of assets, identification, correction and prevention of violations, compliance with the applicable legislation and local normative documents, timely preparation of reliable financial reporting with an aim to increase investment attractiveness.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM – represents a totality of processes for risk management and internal control, carried out by subjects of the risk management and internal control system on the basis of the existing organizational structure, internal policies and regulations, procedures and methods for management of risks and internal control, applied in the Company at all levels of management and within all functional areas.

SUBJECTS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM OF THE COMPANY – subjects of the Risk Management and Internal Control System of Rosneft, as well as boards of directors (supervisory councils), Revision Commissions and executive bodies, managers and employees of Rosneft Group Companies, responsible for organization and functioning of the Risk Management and Internal Control System, and internal audit units, units of Security Service, internal auditor of Rosneft Group Company (in accordance with their constitutive documents and organizational structure).

SUBJECTS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM OF ROSNEFT – Board of Directors of Rosneft, Audit Committee of the Board of Directors of Rosneft, Sole Executive Body of Rosneft, Management Board of Rosneft, Revision Commission of Rosneft, management of Rosneft, heads of structural units and employees of Rosneft responsible for organization and functioning of the Risk Management and Internal Control System, Head of Internal Audit Service

of Rosneft, Operational Audit Department of Rosneft, Corporate Audit Department of Rosneft, Regional Audit Department of Rosneft, Internal Audit Methodology and Organization Division of Rosneft, Economic and Organizational Analysis Division of Rosneft, Security Service of Rosneft, Internal Control Department of Rosneft, and Risk Department of Rosneft.

TERMS AND DEFINITIONS FOR THE PURPOSES OF THIS DOCUMENT

UNSCHEDULED INSPECTION – inspection not included into the approved Internal Audit Plan and conducted pursuant to directions issued by the Sole Executive Body of Rosneft, Audit Committee of the Board of Directors of Rosneft, or Board of Directors of Rosneft.

ASSURANCE MAP – document developed by the Head of the Internal Audit Service of Rosneft which reflects coverage of risks, business processes and business areas by control functions of the Company and makes it possible to more efficiently coordinate operations of structural units exercising control functions at different levels and organize information provided to top management and the Board of Directors of Rosneft into groups describing specific areas of improvements to be implemented within the Company.

VIOLATION – act or omission of an employee of the Company directed at non-compliance or improper compliance with applicable requirements of laws and regulations or terms of contracts with a legal entity with which such employee has labor relations.

DEFICIENCY – act or omission of an officer which is not officially prohibited, but entails adverse consequences for the inspection target. Deficiencies in the Internal Control System, Corporate Governance or Risk Management System may adversely impact attainment of the goals and objectives of the inspection target, or of the Company as a whole.

INSPECTION TARGET – business project, business process, business area and/or structural unit of Rosneft or Group Company which is being inspected.

ASSURANCE – objective analysis of available audit evidence with a view to provide an independent assessment of corporate governance, risk management and control processes within the entity.

SCHEDULED INSPECTION – inspection included into the operating plan for the relevant planning period.

INTERNAL AUDIT PLAN (OPERATING PLAN) – document developed by the Head of the Internal Audit Service of Rosneft and incorporating scheduled inspections and other internal audit measures for the planning period (one year, within the framework of a three-year planning horizon), as submitted for consideration by the Audit Committee of the Board of Directors of Rosneft, and for approval by the responsible governing body of the Company. Information about the operating plan is provided to the Board of Directors of Rosneft at the time of approval of the internal audit report for the previous period.

BEST PRACTICES – positive examples of improvement of efficiency, reliability of business projects, business processes, business areas, Risk Management and Internal Control System, and corporate governance, as identified by internal audit and recommended for application in the relevant operating areas of the Company.

INSPECTION – control activity that provides for achievement of goals, objectives, functions and authorities of Internal Audit. Types of inspections include but are not limited to the following:

- **AUDIT** – inspection based on the preventive control method which is conducted with a view to assess, analyze, and express an opinion with respect to, efficiency of implementation of business projects, business processes, business areas, Risk Management and Internal Control System, and corporate governance, and develop proposals designed to improve operating efficiency of the audit target;
- **LIMITED-SCOPE INSPECTION** – inspection based on the follow-up control method which involves examination of certain aspects or areas of operations of the inspection target with the highest risk exposure with a view to identify best practices, violations and deficiencies, assess risks, and develop proposals designed to improve operating efficiency of the inspection target;
- **REVISION** – inspection based on the integrated follow-up control method which involves comprehensive coverage of financial and business operations of the inspection target with a view to identify best practices, violations, deficiencies and risks, and develop proposals designed to improve operating efficiency of the revision target.

2. DESIGNATIONS AND ABBREVIATIONS

COMPANY – group of legal entities with various administrative and legal statuses, including Rosneft, with respect to which the latter acts as the main or dominating (participating) company.

LND – local normative document.

ROSNEFT TOP MANAGERS – First Vice Presidents of Rosneft, Vice Presidents of Rosneft, Chief Accountant of Rosneft, Financial Director of Rosneft, advisors and heads of structural units and services of Rosneft with a rank of Vice President.

COMPANY MANAGEMENT – top managers of Rosneft, heads of Group Companies, deputy heads of Group Companies, and heads of structural units of Group Companies reporting directly to the head of the relevant Group Company.

CHIEF AUDIT EXECUTIVE – officer of the Company responsible for effectively managing the internal audit activity in accordance with the Company Policy on Internal Audit, the Definition of Internal Auditing, the Code of Ethics of Institute of Internal Auditors, and the International Standards on Internal Audit. Head of Internal Audit and Control of Rosneft acts as Chief Audit Executive of the Company.

GROUP COMPANY – business entity 20% or more of shares of which are directly and/or indirectly owned by Rosneft.

ROSNEFT GOVERNING BODIES – General Meeting of Shareholders of Rosneft, Board of Directors of Rosneft, Management Board of Rosneft, and President of Rosneft.

RM&ICS – Risk Management and Internal Control System.

GROUP COMPANY STRUCTURAL UNIT (GC SU) – structural unit of a Group Company with separate functions, objectives and responsibilities operating within the framework of its scope of competence as defined by the relevant Structural Unit Regulations.

ROSNEFT STRUCTURAL UNIT (ROSNEFT SU) – structural unit of Rosneft with separate functions, objectives and responsibilities operating within the framework of its scope of competence as defined by the relevant Structural Unit Regulations.

STRUCTURAL UNITS OF INTERNAL AUDIT SERVICE OF ROSNEFT – Operational Audit Department of Rosneft, Corporate Audit Department of Rosneft, Regional Audit Department of Rosneft, Internal Audit Methodology and Organization Division of Rosneft, Economic and Organizational Analysis Division of Rosneft.

3. GENERAL PROVISIONS

3.1. INTERNAL AUDIT DEFINITION

Internal audit is defined as provision of independent, objective assurance and consulting services designed to improve Company operations. The internal audit helps an organization accomplish its objectives by bringing a systematic, consistent approach to evaluate and improve the effectiveness of risk management, control processes and governance.

For the purposes of this Policy the term Internal Audit is also used to define internal audit function or structural units that perform internal audit function.

The internal audit function in Rosneft is performed by the Head of Internal Audit Service of Rosneft and structural units of Internal Audit Service of Rosneft.

Structural units of Internal Audit Service of Rosneft shall be organized and abolished by order of Rosneft on the basis of an organizational structure, approved by the authorized body of Rosneft in accordance with the competence set out in the Charter of Rosneft.

According to the organizational structure of Rosneft structural units of Internal Audit Service of Rosneft is under direct supervision and management of the Head of the Internal Audit Service of Rosneft.

3.2. INTERNAL AUDIT GOALS

The goal of Internal Audit (Head of the Internal Audit Service of Rosneft, structural units of Internal Audit Service of Rosneft) is assistance to the Board of Directors of Rosneft and executive bodies of the Company in improving effectiveness of management system in the Company, improving its financial and business operations through application of a systematical and consistent approach to analysis and evaluation of the Risk Management and Internal Control System and corporate governance as tools used to obtain reasonable assurances of attainment of the objectives of the Company.

3.3. INTERNAL AUDIT OBJECTIVES

For achievement of objectives set by the internal audit, taking into account available resources and priorities of the Company activity, Head of the Internal Audit Service of Rosneft, structural units of Internal Audit Service of Rosneft shall solve tasks in the following main areas of activity:

1. Assistance to executive bodies and employees of the Company in the development of, and monitoring of implementing procedures and measures for improvement of the risk management and internal control system and corporate governance of the Company by assessing reliability and effectiveness of the risk management, internal control system and corporate governance system, as well as in providing:
 - Reliability and integrity of provided information about financial and business operations of the Company, including Group Companies;

- Efficiency and effectiveness of operations conducted by the Company, including Group Companies;
 - Identification of internal reserves to improve the efficiency of financial and business operations of the Company, including Group Companies;
 - Preservation of assets of the Company, including Group Companies;
2. Coordinate activities with the External Auditor, the Revision Committee of Rosneft, Revision Committees of Group Companies, counterparties providing consulting services in the area of Company risk management, internal control and corporate governance;
 3. Conduct audits of Rosneft and of controlled Group Companies;
 4. Independent audit of effectiveness of the Quality Management System (*inter alia*, in the area of capital construction, including assessment of compliance with ISO requirements);
 5. Verify compliance of the members of executive bodies of the Company and its employees with the provisions of the existing legislation and internal documents of the Company related to insider information and combatting corruption, observance of requirements stipulated by the Code of Ethics of Rosneft;
 6. Prepare and submit to the Board of Directors of Rosneft and executive bodies of the Company internal audit reports (including, among other things, information about significant risks, violations / deficiencies, results and effectiveness of implementation of proposals formulated by internal audit based on the findings of inspections in terms of elimination of identified violations/deficiencies, results of implementation of the internal audit plan, results of evaluation of the actual condition, reliability and effectiveness of RM&ICS and corporate governance);
 7. Improve the quality of conducted audits and timely response to changes, connected with development of Rosneft business.

3.4. INTERNAL AUDIT FUNCTIONS

For solution of set tasks and achievement of objectives Head of Internal Audit Service, structural units of Internal Audit Service of Rosneft shall perform the following functions:

- Assess reliability and effectiveness of the risk management and internal control system, its appropriateness to scope and complexity of the Company business;
- Evaluate corporate governance;
- Conduct inspections on the basis of the internal audit plan of Rosneft approved by the responsible governing body of the Company and endorsed by the Audit Committee of the Board of Directors;
- Conduct other inspections, perform other tasks as directed/instructed by the Board of Directors of Rosneft (Audit Committee of the Board of Directors) and/or executive bodies of Rosneft within the relevant scope of competence, *inter alia*, based on information received by operators of the "hot line" established by the Company;
- Conduct integrated inspections (revisions) of operations of inspection targets in the form of documentary of physical verification of legality of completed financial and business transactions, reliability and correctness of their reflection in accounting (financial) reports, exercise follow-up control of financial and business operations of inspection targets;

- Analyze inspection targets with a view to examine individual aspects of their operations and evaluate specific areas of their activities;
- Provide consultations to executive bodies of the Company on risk management, internal control and corporate governance matters (subject to preservation of independence of internal audit);
- Monitor implementation of proposals advanced by the auditors with a view to improve the Internal Control, Risk Management and Corporate Governance System, eliminate violations and deficiencies identified in the course of inspections;
- Develop and update local normative documents governing internal audit operations (internal audit methodology) in accordance with the standards and practices of the Institute of Internal Auditors;
- Develop the internal audit plan for the period defining internal audit priorities (one year, within the framework of a three-year planning horizon);
- Interact with various units of the Company in matters related to internal audit operations;
- Exercise quality control and assess the results of inspections;
- Perform other functions as may be necessary to assure attainment of internal audit objectives within the Company.

Assessment of reliability and effectiveness of the risk management and internal control system and its appropriateness to scope and complexity of the Company business, evaluation of corporate governance shall be carried out by the internal audit in accordance with principles and approaches, set out in the Corporate Governance Code recommended by Letter of the Bank of Russia No.06-52/2463 of April 10, 2014, Methodological Recommendations on Organization of Internal Audit in Joint-Stock Companies with Equity Participation of the Russian Federation approved by Order of the Federal Agency for State Property Management No.249 of July 04, 2014, and generally accepted internal audit standards.

3.5. INTERNAL AUDIT AUTHORITIES

The Head of the Internal Audit Service of Rosneft shall be authorized to:

- Have direct access to the Chairman of the Audit Committee of the Board of Directors of Rosneft and the Sole Executive Body of Rosneft;
- Request, and receive from executive bodies of the Company, any information and materials required for performance by him/her of his/her official duties, including access to computer systems and databases;
- Review current and long-term operating plans, plans and programs implementation reports, draft resolutions and resolutions of the Board of Directors of Rosneft and executive bodies of the Company;
- Communicate to the Board of Directors of Rosneft (Audit Committee of the Board of Directors of Rosneft) and the Sole Executive Body of Rosneft proposals regarding improvement of existing systems, processes, standards, standard operating procedures, and comments on any matters lying within the scope of competence of internal audit;
- Attract in accordance with the procedure established under local normative documents of the Company, employees of the Company, outside experts for performance of audits and other tasks;

- Attend, as an invitee, conferences and meetings of working bodies of the Company (committees, commissions, working groups, etc.) with a view to communicate the internal audit position;
- Attend, as an invitee, meetings of the Board of Directors of Rosneft, Audit Committee of the Board of Directors of Rosneft, of the Management Board of Rosneft on matters concerning internal audit, corporate governance, internal control and risk management.

Structural units of Internal Audit Service of Rosneft (internal auditors) shall be authorized to:

- Request and obtain unrestricted access to any assets, documents, accounting entries and other information (including electronic information) on operations of the Company to the extent necessary for them to properly perform their official duties, make copies of appropriate documents, make photographic and videographic records of relevant events related to business operations of the Company;
- Interview members of executive bodies and employees of the Company in the course of inspections;
- Use information resources and software for internal audit purposes;
- Acting in accordance with established procedure, use information resources and software of structural units being audited for internal audit purposes;
- Review and evaluate any documents requested in the course of inspections (including those beyond the timeframe of the inspected period, before and after field work), and forward such documents and/or appropriate information to the Head of the Internal Audit Service of Rosneft;
- Request and obtain any necessary assistance from employees of inspected structural units and employees of any other structural units of the Company;
- Do and make any other acts and things as may be necessary to attain the goals and objectives of the inspection.

To avoid emergence of conflicts of interest (threat of loss of independence of internal audit and loss of objectivity of the auditor's opinion), the Head of the Internal Audit Service of Rosneft, and Internal Auditors shall refrain from:

- Inspection of those operating areas for which they have been responsible during the year preceding the inspection;
- Participation in inspections or other events, if they have conflicting professional or personal interests (financial, proprietary, familial or any other interest in the operations of inspection targets);
- Participation in any activities which impair, or can be perceived as impairing, their impartiality;
- Oversee the activities of employees of other structural units of the Company, except where such employees are instructed to participate in the inspection.

Internal Auditors shall notify the Head of the Internal Audit Service of Rosneft of any restrictions imposed on their authorities, and of all emerging conflicts of interest. The Head of the Internal Audit Service of Rosneft shall notify the Board of Directors of Rosneft (Audit Committee of the Board of Directors of Rosneft) and the Sole Executive Body of Rosneft of all such restrictions and their possible consequences.

4. INTERNAL AUDIT ORGANIZATION PRINCIPLES

The key internal audit composition and organization principles in the Company assuring attainment of internal audit goals shall be as follows:

- ***Principle of independence:*** the Head of the Internal Audit Service of Rosneft shall be appointed and dismissed by the Sole Executive Body of Rosneft on the basis of a decision by the Board of Directors of Rosneft. The Head of the Internal Audit Service of Rosneft shall be administratively subordinated directly to the Sole Executive Body of Rosneft and functionally to the Board of Directors of Rosneft. Employees of structural units of the Internal Audit Service of Rosneft administratively and functionally subordinate to the Head of the Internal Audit Service.
- ***Principle of direct interaction with the Board of Directors:*** the Head of the Internal Audit Service of Rosneft shall report to the Board of Directors of Rosneft, *inter alia* confirming organizational independence of internal audit and disclosing, as necessary, material restrictions as may have been imposed on the scope of authority of internal audit, or other restrictions which may adversely impact performance of internal audit functions.
- ***Principle of objectivity:*** Internal Auditors shall be impartial and unprejudiced, and shall avoid conflicts of interest of any kind. Internal Auditors shall not be involved in decision making on matters related to financial and business operations of the Company nor shall they participate in inspections if there exist any conflict of interests in fact or in appearance or other circumstances which may impair their independence and/or objectivity.
- ***Principle of risk-based approach to internal audit:*** the Head of the Internal Audit Service of Rosneft shall apply a risk-based approach to internal audit plan which shall define internal audit priorities in line with the goals and objectives of the Company, considering the significance of risks associated with relevant areas of operations of the Company, the risk management concept adopted by the Company, review and adjust the plan as necessary.
- ***Principle of continuous assurance:*** the internal audit plan shall define the areas subject to continuous assurance (assessments of effectiveness of internal control on a continuous basis) based on the assessment of risks and risk factors.
- ***Principle of full responsibility:*** the Head of Internal Audit Service of Rosneft shall be fully responsible for all internal audit results, and for periodic evaluation of conformity of internal audit goals, objectives, authorities and responsibilities, as stipulated by this Policy, to the tasks set before internal audit.
- ***Principle of methodological uniformity:*** there shall be used uniform approaches to establishment, management and coordination of internal audit function which shall also be aligned with the methodology of the Risk Management and Internal Control System.
- ***Principle of professional competence:*** internal audit employees shall have, and use in their work, audit skills in relevant business areas required for complete and competent performance of their official duties, improve their knowledge, skills and other competencies through continuous professional growth.

5. PROCEDURE FOR IMPLEMENTATION OF INTERNAL AUDIT IN GROUP COMPANIES

The internal audit function in the Group Companies shall be carried out using the following mechanisms:

1. Inclusion of employees of structural units of the Internal Audit Service of Rosneft in Revision Commissions of Group Companies to carry out desk inspections in the course of preparation of Revision Commissions opinions on reliability of data contained in accounting statements and annual report without visit of employees of structural units of the Internal Audit Service of Rosneft in Group Companies. Employees of structural units of the Internal Audit Service of Rosneft may also be attracted to audits of the Revision Commission of Group Company (with visiting, when necessary).
2. Conduct of audits of Rosneft Group Companies in accordance with an internal audit plan by forces of employees of structural units of the Internal Audit Service of Rosneft (not using a mechanism of Revision Commissions), which allows for considering the influence of risks, connected with audited processes of Group Companies on activity of the Company in general.
3. Participation of employees of structural units of the Internal Audit Service of Rosneft in activities of Audit Committee of Board of Directors of a Group Company with evaluation of the necessity of informing core structural units of the Company, carrying out management / coordination of individual processes for a Group Company, on the most important issues / key recommendations of Audit Committee of Board of Directors of a Group Company.
4. Functional management by the Head of the Internal Audit Service of Rosneft of internal audit units in Group Companies, in which Rosneft or its subsidiaries hold shares / stakes in the authorized capital jointly with companies - partners, and / or charters, shareholders' and other agreements in which stipulating a special procedure for enjoyment by shareholders / participants of their rights, including on management of Group Companies.

Functional management by the Head of the Internal Audit Service of internal audit units in Group Companies shall provide for the following:

- agreement of establishment, reorganization and liquidation of the internal audit units in a Group Company, consideration of an organizational structure and staff numbers of units;
- agreement of appointment and dismissal of a head, consideration of dismissal of all employees of the internal audit units in a Group Company;
- consideration, for the purpose of expressing an independent opinion, of internal audit plans of the internal audit units in a Group Company and reporting on their fulfillment.

6. INTERACTION BETWEEN INTERNAL AUDIT AND THE EXTERNAL AUDITOR, THE SUBJECTS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM OF THE COMPANY AND STATE SUPERVISORY AUTHORITIES

6.1. INTERACTION WITH THE BOARD OF DIRECTORS OF ROSNEFT AND THE AUDIT COMMITTEE OF BOARD OF DIRECTORS OF ROSNEFT

In the course of his/her operations, the Head of the Internal Audit Service of Rosneft shall interact with the Board of Directors of Rosneft and the Audit Committee of the Board of Directors of Rosneft, including the internal audit reports submission for review by the Board of Directors of Rosneft.

The internal audit plan for the next period is submitted to the Audit Committee of the Board of Directors of Rosneft together with the internal audit report for the reporting period. The internal audit plan may also be accompanied by work schedule, staff schedule, resource plan, and information on resource limitations, if any.

6.2. INTERACTION WITH THE EXTERNAL AUDITOR

The Head of the Internal Audit Service of Rosneft shall coordinate interaction between internal audit and the External Auditor of the Company with the following purposes:

- Assure complete audit coverage by reviewing External Auditor reports on audit plans for the next fiscal year specifying the extent of audit coverage (of Group Companies and processes to be examined in the course of audit of consolidated financial statements);
- Consider known facts of bad faith actions, material deficiencies of internal audit procedures, and their impact on reports of the Company by reviewing External Auditor reports on identified bad faith actions (if any).

The Head of the Internal Audit Service of Rosneft shall include into annual internal audit reports to the Board of Directors of Rosneft (subject to endorsement by the Audit Committee of the Board of Directors of Rosneft) a description of interaction with the External Auditor, and an assessment of efficiency of the internal audit process (including efficiency of coordination of internal audit and External Auditor efforts).

6.3. INTERACTION WITH THE REVISION COMMISSION OF ROSNEFT

The Head of the Internal Audit Service of Rosneft shall interact with the Revision Commission of Rosneft within the framework of control over financial and business operations of the Company.

At the initiative of the Revision Commission of Rosneft or the Head of Internal Audit Service of Rosneft, there shall be conducted joint meetings of the Revision Commission of Rosneft and the Internal Audit Service of Rosneft to discuss Revision Commission work plans, inspection findings, and measures designed to eliminate violations and deficiencies in the operations of the Company.

In its work, the Revision Commission of Rosneft may rely on, and use the findings of, inspections conducted by the Internal Audit Service of the Company.

6.4. INTERACTION WITH THE SUBJECTS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The objectives, tasks and principles for operations of the Risk Management and Internal Control System of the Company, and the distribution of duties and authorities of its subjects, including of the internal audit function, are set out in Company Policy "Risk Management and Internal Control System" No. P4-01 P-01.

The Head of the Internal Audit Service of Rosneft shall interact with the subjects of RM&ICS through exchange of information related to risk and internal control, develop and maintain updated the "assurance map" reflecting the coverage of risks and business processes of the Company by control functions. The assurance map is made for the entire Company to help understand in general where roles and responsibilities in risk management and assurance are placed.

If internal audit relies on the findings obtained by other subjects of RM&ICS and other stakeholders, it is recommended that the Head of the Internal Audit Service of Rosneft should undertake a preliminary assessment of the quality and reliability of such findings (including methodologies, procedures and techniques used in the course of assessment, volume and nature of works, etc.).

6.5. INTERACTION WITH GOVERNMENT SUPERVISORY BODIES

In the course of his/her operations, the Head of the Internal Audit Service of Rosneft shall interact with government supervision bodies in accordance with the procedure stipulated by the existing legislation and relevant local normative documents of the Company, including interaction with the Chamber of Accounts of the Russian Federation and other government supervisory bodies on matters lying within the scope of competence of internal audit.

7. QUALITY CONTROL AND EVALUATION OF INTERNAL AUDIT ACTIVITY

To exercise proper control of quality and evaluate internal audit operations, the Head of the Internal Audit Service of Rosneft shall develop, provide to the Sole Executive Body of Rosneft for approval, and implement the Internal Audit Guarantee and Quality Assurance Program envisaging the conduct of periodic internal and external evaluations and continuous monitoring of the quality of internal audit operations.

The Head of the Internal Audit Service of Rosneft shall, on an annual basis, inform the Sole Executive Body of Rosneft and report to the Board of Directors of Rosneft on implementation and outcomes of the Internal Audit Guarantee and Quality Assurance Program, including disclosure of the outcomes of internal and external evaluations.

Acting within the framework of continuous quality monitoring, the Head of the Internal Audit Service of Rosneft shall:

- Supervise the conduct of inspections and other internal audit activities;
- Establish internal audit quality evaluation criteria;
- Receive feedback from target units and other stakeholders;
- Perform sample expert evaluations of work documents;
- Review established performance evaluation parameters;
- Describe, assess and manage auditor risks.

Key audit risks fall into three categories:

- audit failure;
- false assurance;
- reputation risks.

Periodic internal quality evaluations of internal audit performance shall be performed by internal audit in the form of annual self-assessments with preparation of a self-assessment report.

External evaluations of internal audit quality to verify conformance of the internal audit operations to International Professional Practices Framework for Internal Auditing of the Institute of Internal Auditors, this Policy, and other local normative documents governing internal audit operations shall be conducted at least every five years with a purpose to provide the Board of Directors of Rosneft, the Sole Executive Body of Rosneft, the Head of the Internal Audit Service and other stakeholders with a report containing an independent opinion regarding the quality of the internal audit function.

8. CORE INTERNAL AUDIT PROCESSES

The core internal audit processes are shown in Table 1.

Table 1
Core Processes and Key Outcomes of Core Processes

NO.	CORE PROCESSES	REQUIREMENTS	KEY OUTCOMES
1	2	3	4
1	Operational Planning	The internal audit plan shall be developed on the basis of the audit model using information and data requested and received from the executive bodies and the Board of Directors of Rosneft, and results of assessment of the Company's risks.	Approved Internal audit plan
2	Organization and Conduct of Inspections	<ul style="list-style-type: none"> ▪ Audit objectives, areas to be audited, results of assessment of risks and analysis of control procedures, relating to an audited entity shall be determined for each audit. ▪ The volume and content of the inspection shall be sufficient to assure attainment of its goals and objectives. ▪ The Head of the Internal Audit Service of Rosneft shall be generally responsible for exercising control over the course of the inspection. 	Audit reports Proposals regarding elimination of identified violations and deficiencies and enhancement of RM&ICS effectiveness
3	Follow-Up Monitoring	The Head of the Internal Audit Service of Rosneft shall monitor the process of elimination of violations and deficiencies identified in the course of audits with a purpose to evaluate the efficiency and timeliness of actions undertaken by the management of the audited entity to implement internal auditor proposals related to RM&ICS improvement.	Monitoring reports
4	Generation of Reports and Maintenance of the Internal Audit Database	Preparation of periodic reports featuring operating results of internal audit with a view to control quality and plan implementation progress, manage audit resources, etc.	Internal audit reports

9. STRUCTURE AND HIERARCHY OF LOCAL NORMATIVE DOCUMENTS GOVERNING INTERNAL AUDIT

All local normative documents governing internal audit are designed to assure attainment of the objectives and tasks in the area of internal audit stipulated by this Policy.

Structurally, local normative documents in the area of internal audit shall include the following:

- This Policy;
- Standard «On Organization of Internal Audit»;
- Internal audit quality assurance program;
- Local normative documents governing planning and conduct of internal audit, monitoring of eliminating violations and deficiencies, internal audit reporting forms, etc.

10. REFERENCES

1. Federal Law No. 208-FZ On Joint Stock Companies dated December 26, 1995.
2. Federal Law No. 402-FZ On Accounting dated December 6, 2011.
3. Federal Law No. 41-FZ On the Chamber of Accounts of the Russian Federation dated April 5, 2013.
4. Federal Law No. 273-FZ On Countering Corruption dated December 25, 2008.
5. Decree of the Government of the Russian Federation No. 696 On Approval of Federal Audit Rules (Standards) dated September 23, 2002.
6. Corporate Governance Code recommended by Letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014.
7. Methodological Recommendations on Organization of Internal Audit in Joint Stock Companies with Equity Participation of the Russian Federation approved by Order of the Federal Agency for State Property Management No. 249 dated July 4, 2014.
8. Methodological Recommendations on Establishment of Internal Audit Function in Holding Structures with Equity Participation of the Russian Federation approved by Order of the Federal Agency for State Property Management No. 330 dated September 3, 2014.
9. State Standard R ISO 19011-2012 Guidelines on Audit of Management Systems.
10. State Standard R ISO 31000-2010 Risk Management. Principles and Guidance.
11. Code of Business and Corporate Ethics of Rosneft No. P3-01.06 P-01 version 1.00, approved by Resolution of the Board of Directors of Rosneft dated June 5, 2015 (Minutes No. 35 dated June 5, 2015), put into force by Rosneft Order No. 428 dated September 28, 2015.
12. Code of Rosneft Corporate Governance No. P3-01 KS-01 version 1.00, approved by Resolution of the Board of Directors of Rosneft dated June 11, 2015 (Minutes No. 36 dated June 15, 2015).
13. Company Policy Risk Management and Internal Control System, No. P4-01 P-01 Version 2.00, approved by Resolution of the Board of Directors of Rosneft dated November 16, 2015 (Minutes No. 8 dated November 16, 2015), put into force by Rosneft Order No. 522 dated November 16, 2015.
14. Regulations on the Board of Directors of Rosneft w/o number, Version 3.00, approved by the General Meeting of Shareholders of Rosneft on June 27, 2014 (Minutes of the General Meeting of Shareholders of Rosneft w/o number dated June 27, 2014).
15. Regulations on the Audit Committee of the Board of Directors of Rosneft No. P4-01 R-0020 YuL-001, Version 2.00, approved by Resolution of the Board of Directors of Rosneft dated October 6, 2014 (Minutes No. 7 dated October 6, 2014).

16. Regulations on the Revision Commission of Rosneft approved by Resolution of the General Meeting of Shareholders of Rosneft on June 27, 2014 (Minutes w/o number dated June 27, 2014).

11. BIBLIOGRAPHY

1. Guidance by the International Committee of Sponsoring Organizations of the Treadway Commission Internal Control – Integrated Framework, 2013.
2. Guidance by the International Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management – Integrated Framework.
3. International Standards for the Professional Practice of Internal Auditing / Institute of Internal Auditors.
4. Practice Advisories on Internal Audit / Institute of Internal Auditors.
5. Code of Ethics of the Institute of Internal Auditors.