

**APPROVED**

**by Resolution of Rosneft**

**Board of Directors**

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**ROSNEFT  
POLICY**

**INVESTMENT GOVERNANCE**

**NO. ПЗ-03 П-01**

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# INTRODUCTORY PROVISIONS

## INTRODUCTION

The Company's Investment Governance Policy (hereinafter – “the Policy”) is a fundamental document regulating the investment governance process in the Company.

The Policy complies with the requirements of Federal Law No. 39-FZ on ‘Investment Activity in the Russian Federation in the Capital Expenditure Format’ as of February 25, 1999, and has been developed with account of experience accumulated by the Company and other companies, including foreign ones.

## OBJECTIVES

The objective hereof is to describe general approaches and principles defining the *investment decision-making* procedure and allowing for a maximum effect of business project implementation.

## GOALS

The Policy **goals** are as follows:

- formalizing general investment governance principles in line with the Company strategy;
- establishing key principles that underpin sustainable growth of the Group value as a result of implementing business projects with high return on capital employed;
- identifying key risks in the business project implementation process;
- introducing common investment governance terminology.

## SCOPE OF APPLICATION

This Policy shall apply to all employees of Rosneft and subsidiaries of Rosneft who are directly or indirectly involved in investment governance activity.

This document is of advisory nature for employees of Rosneft affiliates.

The requirements hereof shall be deemed as obligatory for the Rosneft subsidiary and affiliate, as well as any other Entity where Rosneft acts as a direct or indirect stakeholder, upon enforcement in accordance with the Charter of such Entity and in due order of such Entity.

Directive, local normative documents and other internal regulations should not contradict this Policy.

## EFFECTIVE PERIOD AND AMENDMENT PROVISIONS

This policy is a local normative document of permanent application.

This Policy shall be approved in Rosneft via respective resolution of the Board of Directors and shall come into effect in Rosneft via respective Order of Rosneft.

This Policy shall be deemed as void in Rosneft pursuant to respective resolution of the Rosneft Board of Directors.

Amendments hereto shall be introduced pursuant to respective resolution of the Rosneft Board of Directors and shall come into effect via respective Order of Rosneft.

Amendments hereto can be initiated by:

- Rosneft top managers,
- Structural units of Rosneft and joint-stock companies of the Group – upon agreement with the Rosneft top manager accountable for investment activity.

Amendments shall be introduced in case of:

- changes in the RF legislation,
- changes in the organizational structure or scope of management authorities, etc.

Responsibility for updating hereof shall rest with the top manager accountable for investment activity.

Control over compliance herewith shall rest with the top manager accountable for investment activity.

# 1. TERMS AND DEFINITIONS

## TERMS AND DEFINITIONS OF THE CORPORATE GLOSSARY

**BUSINESS STREAM** – a number of Rosneft structural units directly reporting to the Rosneft top manager accountable for a respective business line; a number of Group entities and/or structural units of the Group entities that deliver a certain business line.

**BUSINESS LINE** – a set of inter-related and interacting business-processes and their deliverables unified by common features (delivery of a certain business result, use of resources, geographical envelope, etc.) with a view to enhance performance in accordance with adopted decisions regarding the Company development.

**BUSINESS PROJECT (PROJECT)** – a set of activities which are aimed at delivery of set objectives, and which require financial, labor or other resources from the Group, as well as valid justification and established implementation schedule.

**BUSINESS / FUNCTIONAL SEGMENT** – a set of the Company activities combined in view of their homogeneity.

**BUSINESS PROJECT CUSTOMER** — a business project role responsible for: delivery of business project objectives, arrangement of evaluation and formalization processes, monitoring and control throughout the business project life cycle, preparation of requirements to the business project deliverables, control over the business project status correspondence to the envisaged objectives, acceptance and commissioning of the project deliverables, post-project monitoring.

**BUSINESS PROJECT LIFE CYCLE** — a period of time from the business project initiation till its closure.

Note:

*The business project life cycle consists of stages, the list of which shall be fixed in the Company's unified standard for business project management.*

**INVESTMENTS** — cash expenses (capitalized – Capex, non-capitalized — Revex), securities and other assets, including property rights that have appraised monetary value and are invested in entrepreneurial and/or other business ventures with a view to obtain profit and/or other useful effect.

**INVESTMENT COMMITTEE** — a collegial body of Rosneft, which shall be accountable for review and endorsement of business projects and investment programs prior to their approval by the authorized investment bodies of Rosneft.

**INVESTMENT MEMORANDUM** — a document containing justification of the respective business project or investment program, which is submitted to the Rosneft body accountable for investment decision-making for further endorsement/approval.

**INVESTMENT PROGRAM** — a set of business projects unified by a common feature or a number of features and aimed at achieving maximum efficiency and manageability which is impossible in case

of individual business project management. Such features may include geographic location, common project objectives and functional peculiarities.

**INVESTMENT PORTFOLIO (PORTFOLIO)** – a register of business projects and investment programs unified in order to ensure effective management and deliver the Company’s strategy. Investment programs and business projects included in the portfolio are not obligatorily interdependent or inter-related.

**INVESTMENT DECISION** – approval of an optimal version of the business project or investment program, which defines expected operational and economic performance of the business project or investment program, as well as implementation schedule, risks and mitigation plan. Investment decision-making implies the Company’s readiness to encounter circumstances/expenses related to the respective business project. The investment decision shall be made by the authorized investment body.

**INVESTMENT RISK** – probability of unfavorable changes in the key performance indicators of the business project or investment program due to uncertainty of investment conditions.

**KEY PERFORMANCE INDICATORS OF THE BUSINESS PROJECT** – measurable indicators, the current value of which is descriptive of the business project or investment program delivery status (NPV, IRR, DPI and DPP).

Note:

*For a business project or investment program that does not provide for such indicators estimation (NPV, IRR, DPI and DPP), KPIs shall be set by the Supervisor and agreed by the Investment, Business Efficiency and Controlling Department of Rosneft.*

**CRITICAL DEVIATION** – deviation of the business project NPV or budget from the values approved in the investment memorandum, which exceeds the criticality threshold.

Note:

*The criticality thresholds shall be determined in the Group Standard “Key Principles of Investment Governance”.*

**SUPERVISOR** — a person who submits the business project/investment program for endorsement and approval and is responsible for the business project/investment program objectives delivery and compliance with the Company strategy.

**INVESTMENT AUTHORITY LIMIT** — maximum amount of investment expenditure (sales cost – in case of asset divestment business projects) for an individual business project or investment program, within the framework of which the review and endorsement procedure shall be delegated to the respective specialized subcommittee of the Investment Committee.

**SPECIALIZED SUBCOMMITTEES OF THE INVESTMENT COMMITTEE** – Rosneft collegial bodies accountable for decision-making with regard to business projects and investment programs within the framework of respective terms of reference.

Note:

*The terms of reference of the specialized subcommittees of the Investment Committee are determined in the Company's Regulations on Organization of Activity of the Investment Committee and Specialized Subcommittees in Rosneft (No. П3-03 P-0001).*

**BUSINESS PROJECT DELIVERABLE** — a specific product which should be received as a result of the business project.

**BUSINESS PROJECT MANAGER** — a person managing the business project implementation and accountable for obtaining business project results within the set timeline, budget, quality scope and risk level.

**INVESTMENT GOVERNANCE** — activity including identification, classification, evaluation, formalization, expert review, endorsement and approval of business projects, monitoring and control throughout the business project life cycle, as well as accompanying processes of regulation, and methodological support, and improvement and automation of the above processes. Investment governance objective is to maximize the equity value and achieve the Company's strategic objectives. Investment governance is closely related to the processes of business project progress control and strategic management.

**BUSINESS PROJECT PROGRESS CONTROL** — activity including planning, arrangement and control of a business project with a view to arrive at the business project results within the set timeline, budget, quality scope and risk level.

**AUTHORIZED INVESTMENT BODY** — Rosneft management body authorized to make investment decisions in accordance with the Rosneft Charter.

**BUSINESS PROJECT OBJECTIVE** — the final benefit for the Group, which is fixed in the investment memorandum as a commitment and can be represented by:

- *profit growth* — business development (revenue growth, cost reduction),
- *profit retention* — business sustaining (asset retention, fulfillment of obligations, compliance with legislative regulations, etc.).
- *better risk management* (mitigation of threat implications, threat probability reduction, etc.),
- *process efficiency enhancement* (unification, regulation, automation, etc.).
- *social responsibility* — living quality improvement for employees and their families, education support, contribution to social and economic development of the regions.

**BUSINESS PROJECT STAGES** – time segments of the business project life cycle, which are fundamentally different in terms of business processes and results.

**CAPEX** – capital expenditure in fixed assets capitalized in accordance with the Corporate Accounting Policy for the Company accounting purposes.

**REVEX** – investments which are part of the prime cost – current non-capital costs referred to the prime cost in accordance with the Corporate Accounting Policy for the Company accounting purposes, which do not occur during routine operating activity in the absence of a specific business project.

Note:

*Typical examples of Revex:*

- *All exploration costs, except costs related to construction of prospecting and exploration wells (geological, geochemical, geophysical activities, research and design, etc.).*
- *Costs related to drilling of prospecting and exploration wells that have served their purpose, failed to deliver commercial oil flow and are subject to abandonment.*
- *Costs related to delivery of operations within the framework of well interventions.*
- *Costs related to maintenance of winter motor roads.*
- *Costs related to non-capitalized research and design work.*
- *Costs related to business project of investment program progress control at an early stage.*
- *Other costs which can be recognized as investments of non-capital nature (Revex).*



## 2. DESIGNATIONS AND ABBREVIATIONS

**COMPANY** – a group of legal entities with different legal structures, including Rosneft, with regard to which the latter is acting as the principal or predominant (participating) entity.

**GROUP ENTITY (GE)** – Rosneft subsidiary/affiliate, as well as any other entity in which Rosneft has a direct or indirect stake.

**BST** – Business Stream

**BS** – Business Segment

**BP** – Business Project

**ST** – Side-Tracking

**IC** – Investment Committee of Rosneft

**IM** – Investment Memorandum

**KPI** – Key Performance Indicators

**LND** – Local Normative Document

**IAL** – Investment Authority Limit

**R&D** – Research and Design

**APG** – Associated Petroleum Gas

**IP** – Investment Program

**ICSS** – Specialized Subcommittee of the Rosneft Investment Committee.

**IT SERVICE** – a set of Rosneft structural units directly reporting to the Rosneft top manager accountable for information technology, and the Group entities ensuring delivery of functions required for provision of relevant IT-services for the Company.

**STRUCTURAL UNIT (SU)** – a structural unit with independent functions, tasks and accountabilities within the framework of respective terms of reference outlined in the Regulations for such structural unit.

**EDDAS** — Electronic Directive Document Agreement System of Rosneft.

**DPP** – Discounted Payback Period

**IRR** – Internal Rate of Return

**NPV** – Net Present Value

**DPI** – Discounted Profitability Index

**AIB** – Authorized Investment Body

**FS** – Functional Segment

### 3. COMPANY OBJECTIVES (STRATEGIC PRIORITIES) IN INVESTMENT GOVERNANCE

The key objectives of the Company within the framework of the Investment Governance process are as follows:

- continuous enhancement of the Company performance along all business lines as a result of carefully checked Company demand in investments, improvement of skills and competencies of personnel involved in investment governance processes, as well as high-quality management, monitoring and control of business projects;
- ensuring sustainable business growth across the Company entities as a result of investments in efficient and competitive business projects, increasing investment revenues, consistent optimization of the business project portfolio and minimization of investment risks;
- enhancement of investment discipline as a result of thorough business project review, improvement of the identification and classification system;
- observing the principles of the Company's high social responsibility in terms of environmental and industrial safety, safe working conditions, health protection, living quality improvement for employees and their families, education support, contribution to social and economic development of the regions.

## 4. INVESTMENT GOVERNANCE TASKS

The Company's business is primarily aimed at delivery of the Company's strategic priorities. The Company investment governance tasks in the context of the Company's strategic priorities are outlined in Table 1.

This is a type of activity which includes identification, classification, evaluation, formalization, expert review, endorsement and approval of business projects, monitoring and control throughout the business project life cycle, post-project monitoring, as well as accompanying processes of regulation, and methodological support, and improvement and automation of the above processes. Business processes implementation and management, including contractual work and supply chain management, is not covered by investment governance.

**Table 1**  
**Investment Governance Tasks**

NO.	OBJECTIVES (STRATEGIC PRIORITIES) OF THE COMPANY	INVESTMENT GOVERNANCE TASKS
1	2	3
1	Continuous performance improvement across all business lines	<ul style="list-style-type: none"> <li>▪ Carefully checked Company investment demand for the purpose of the Company strategy implementation.</li> <li>▪ More effective employment of the Group personnel involved in the investment process.</li> <li>▪ Effective decision-making on the business project implementation, including timeliness, justification and promptness of decisions.</li> <li>▪ Ensuring due investment efficiency as a result of monitoring and control throughout the project life cycle and post-project monitoring.</li> </ul>
2	Sustainable business growth	<ul style="list-style-type: none"> <li>▪ Ensuring the Company's economic growth as a result of attracting investments for efficient and competitive business projects aimed at production extension, revenue growth and development of the Company.</li> <li>▪ Ensuring investment income growth as a result of consistent increase of the number of the Company effective business projects and their optimization in the course of delivery.</li> <li>▪ Generation and ongoing optimization of the business project portfolio via using ranking and rating mechanisms.</li> </ul>
3	Investment discipline enhancement	<ul style="list-style-type: none"> <li>▪ High-quality preparation/review of business projects in order to make effective investment decisions, with the use of economic and portfolio analysis tools and mechanisms.</li> <li>▪ Improvement of business project identification and classification processes.</li> <li>▪ Enhancement of information transparency and openness in investment governance.</li> </ul>

NO.	OBJECTIVES (STRATEGIC PRIORITIES) OF THE COMPANY	INVESTMENT GOVERNANCE TASKS
1	2	3
		<ul style="list-style-type: none"> <li>▪ Reasonable evaluation of details, factors and options of business project implementation.</li> <li>▪ Application of effective mechanisms and tools for objective analysis of external and internal factors driving the business project choice and success.</li> <li>▪ Application of methods and tools for investment risk mitigation.</li> </ul>
4	High social responsibility	<ul style="list-style-type: none"> <li>▪ Increasing business project efficiency and ensuring effective use of investment resources for delivery of the Group priority economic and social development programs.</li> <li>▪ Investment governance with account of the Group's high social commitments towards employees, society, authorities and shareholders. Contribution to social and economic development of the regions on a bilateral basis.</li> </ul>

## 5. INVESTMENT GOVERNANCE PRINCIPLES

In order to ensure objectives delivery and successful implementation of respective tasks, investment governance should be governed by the following principles:

- **Availability of an investment decision for each business project or investment program:** each business project or investment program should undergo a comprehensive procedure of review and investment decision-making in accordance with the corporate requirements.
- **Standard formalization procedure:** all documents should be submitted in a standardized format (IM, content and consistency of justifying estimates, etc.)
- **Financing opening for any business project should provide for a “two-key mode”:** release of funds for the business project implementation should only take place in case of endorsement from the authorized investment body and availability of respective funds in the approved or adjusted business plan.
- **Authority and responsibility of bodies making decisions on business projects should correspond to their materiality level:** the system of investment decision-making envisages an hierarchy of bodies authorized to make decisions on business projects and investment programs depending on respective capital intensity and strategic importance.
- **Expert review:** each business project should be accompanied by a thorough expert review (functional, technical, economic, methodological and checking compliance with the Company strategy) prior to review by respective decision-making bodies.
- **Personalization of responsibility throughout the business project life cycle:** for each business project, there should be a dedicated **supervisor** who shall bear personal responsibility for the project objectives and deliverables, **business project customer** accountable for the objectives delivery, and **business project manager** accountable for obtaining the project results within the established timeline, budget, quality scope and risk level.
- **Monitoring and control over the business project implementation at all life cycle stages:** the project approval should be followed by obligatory monitoring and control throughout the project life cycle. In case of critical deviations, additional evaluation, formalization, expert review, endorsement and approval are required. The business project closure shall be followed by post-project monitoring. The Investment Committee or the specialized subcommittee that originally endorsed the business project may withdraw the project from post-project monitoring before the payback term arrives, upon the supervisor’s recommendation.
- **Stagewise implementation of business projects:** in order to enhance the quality of business project management, development and implementation stages should be differentiated. The approach to stages identification is outlined in the Company’s unified standard for business project management.
- **Interrelation with adjacent process areas:** investment governance is inter-related with other business processes of the Company, i.e.: planning, managerial reporting, budgeting, business project progress control, corporate governance, etc.

## 6. INVESTMENT GOVERNANCE SUBJECTS

The subjects of investment governance are as follows:

- business project;
- investment program;
- investment portfolio.

### 6.1. CLASSIFICATION OF GOVERNANCE SUBJECTS

#### 6.1.1. BUSINESS PROJECT

**BUSINESS PROJECT (PROJECT)** – a set of activities which are aimed at delivery of set objectives, and which require financial, labor or other resources from the Group, as well as valid justification and established implementation schedule.

From the standpoint of decision-making, requirements to project economic evaluation as well as purpose of KPIs required for project feasibility justification, business projects are divided into three main **types**: (1) Investment Project, (2) Optimization Project, and (3) Acquisitions / Divestments.

1. **INVESTMENT PROJECT** – a type of a business project; unique set of measures aimed at profit generation, operations expansion or compliance with safety or environmental requirements with regard to facilities owned or envisaged by the Company; which require certain financial, labor or other resources from the Company, as well as valid justification and specified implementation.

Investment projects can be subdivided into sustaining projects and development projects:

- Sustaining project (Base) – an investment project required to sustain integrity of production facilities in order to support main business operations, and/or sustain performance capacity of production facilities (however, sustaining projects shall not include programs related to APG utilization, drilling, ST and well intervention projects that contribute to production increment).
  - Development project – an investment project aimed at profit generation in the future, which requires economic and strategic feasibility study.
2. **OPTIMIZATION PROJECT** – a type of a business project; a set of activities intended to enhance business performance, optimize business processes, improve the Company image, while not envisaging direct economic benefits (it is impossible to evaluate a specific numerical effect and track delivery progress). Such business projects should be justified by such tasks as transparency enhancement, risk mitigation, process simplification, etc.

*Note: Typical examples of optimization projects:*

- *Certain types of IT projects aimed at optimization of accounting and other systems.*
- *Consultancy projects aimed at business process optimization.*
- *Socially oriented business projects.*

3. **ACQUISITION / DIVESTMENT** – a type of a business project; entering into contractual relations with third parties in order to acquire or sell assets or title to a stake in an existing or newly created asset, as well as subsoil (license) use rights.

Within the framework of the above types of business projects, classification according to sub-type criteria is possible.

**Table 2**  
**Business Project Classification Examples**

No.	CRITERION	SUB-TYPE
1	2	3
1	Capital intensity	<ul style="list-style-type: none"> <li>▪ Major;</li> <li>▪ Non-major.</li> </ul>
2	Technical complexity	<ul style="list-style-type: none"> <li>▪ Low;</li> <li>▪ Medium;</li> <li>▪ High.</li> </ul>
3	Strategic importance <sup>1</sup>	<ul style="list-style-type: none"> <li>▪ Strategically important;</li> <li>▪ Strategically neutral.</li> </ul>
4	Source of financing	<ul style="list-style-type: none"> <li>▪ Project financing;</li> <li>▪ Own funds;</li> <li>▪ Loan funds;</li> <li>▪ Partner's funds;</li> <li>▪ Others.</li> </ul>
5	Project implementation format	<ul style="list-style-type: none"> <li>▪ Capital construction;</li> <li>▪ Long-term investments;</li> <li>▪ Others.</li> </ul>
6	Investment subjects	<ul style="list-style-type: none"> <li>▪ Direct investments;</li> <li>▪ Portfolio investments.</li> </ul>
7	Investment regions	<ul style="list-style-type: none"> <li>▪ Investments into foreign assets;</li> <li>▪ Investments into the RF assets.</li> </ul>
8	Risk level	<ul style="list-style-type: none"> <li>▪ Low;</li> <li>▪ Medium;</li> <li>▪ High.</li> </ul>
9	Sensitivity to external and internal factors	<ul style="list-style-type: none"> <li>▪ Low;</li> <li>▪ Medium;</li> <li>▪ High.</li> </ul>

The above criteria and sub-types should be taken into account during feasibility study and expert review of business projects and investment programs, incl. when assessing:

- project value sources;
- risks;
- sensitivity to external and internal factors;
- financing sources.

<sup>1</sup>Project deliverables have significant direct impact on delivery of the Company strategic objectives.



The IM formats should specify requirements and provide for a possibility to determine such criteria and sub-types. Methodological and training materials, as well as trainings, should pay special attention to business project analysis in terms of such criteria and sub-types. Employees accountable for business project preparation and expert review should have appropriate expertise and competencies.

A detailed description of project criteria, types and sub-types, as well as definitions of business projects, are provided in the Company Business Project Classifier LND.

### **6.1.2. INVESTMENT PROGRAM**

Business projects in the investment program are grouped according to the following principles:

- Homogenous technical focus for the Company or a number of GEs;
- Geographical principle. An investment program may include business projects which refer to a specific GE but have different technical focuses.

Some examples of investment programs are provided below:

- Target program for pipeline reliability enhancement;
- Target environmental program;
- Target gas program;
- Target service company program;
- Target innovation program;
- Target IT program;
- Industrial safety compliance program;
- Exploration program;
- Drilling program;
- Refinery upgrade program;
- Refinery sustaining program;
- Engineering and information security program;
- Transportation infrastructure development program;

### **6.1.3. INVESTMENT PORTFOLIO**

A register of business projects and investment programs unified in order to ensure efficient management and deliver the Company's strategy. Investment programs and business projects in the portfolio shall not be obligatorily interdependent or interrelated. The investment portfolio shall be used for the following purposes:

- ranking of a specific business project or investment program versus other projects to determine its position in the portfolio;
- determination of the most efficient set of business projects and investment programs to be included in the Company business plan.

## 6.2. STRUCTURE OF INVESTMENT GOVERNANCE SUBJECTS

### 6.2.1. INVESTMENT PORTFOLIO STRUCTURE

An investment portfolio is a register of business projects and investment programs. Fig. 1 shows: one investment portfolio, two investment programs and seven business projects.

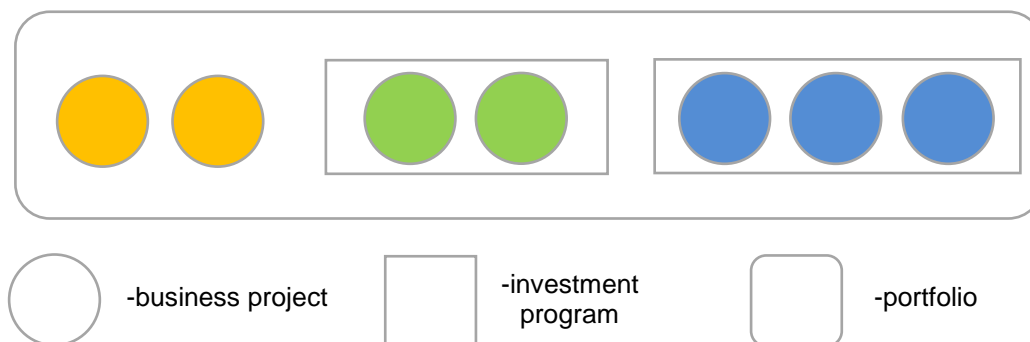


Fig. 1 Graphical representation of the investment governance subject hierarchy

### 6.2.2. BUSINESS PROJECT STRUCTURE

The business project life cycle is divided into stages *according to the stagewise implementation principle*. The stages are further subdivided into phases, and phases into steps. A detailed description of stages, phases and steps can be found in the Company's unified standard for business project management.

## 7. INVESTMENT GOVERNANCE BUSINESS PROCESSES

The Investment Governance process area consists of 7 managerial business processes:

**Table 3**  
**Investment Governance: List of Business processes**

NO.	BUSINESS PROCESS	SUBPROCESSES FORMING PART OF THE BUSINESS PROCESS	RESULT
1	2	3	4
1	Identification and classification	<ul style="list-style-type: none"> <li>▪ Identification of business projects corresponding to the Company objectives</li> <li>▪ Classification of business projects</li> <li>▪ Structuring of business projects, development of investment programs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business projects,</li> <li>▪ Investment programs</li> </ul>
2	Evaluation and formalization	<ul style="list-style-type: none"> <li>▪ Feasibility study of the business project or investment program.</li> <li>▪ Preparation of the IM and economic evaluation model for the business project or investment program.</li> </ul>	<ul style="list-style-type: none"> <li>▪ IM and KPI evaluation model</li> </ul>
3	Expert review	<ul style="list-style-type: none"> <li>▪ Agreement of the business project or investment program (e.g.: EDDAS, Technical and Engineering Expert Council of Rosneft, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Agreed IM and KPI evaluation model</li> </ul>
4	Endorsement	<ul style="list-style-type: none"> <li>▪ Agreement of the business project (BP) or investment program (IP) by the Investment Committee of Rosneft or respective specialized subcommittee.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minutes of the IC / ICSS,</li> <li>▪ Briefing note for AIB re the BP/IP</li> </ul>
5	Approval	<ul style="list-style-type: none"> <li>▪ Investment decision-making by the authorized investment body regarding the business project or investment program.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minutes of the AIB re approval of the BP/IP</li> </ul>
6	Monitoring and control throughout the business project life cycle	<ul style="list-style-type: none"> <li>▪ Monitoring and control of changes in the business project or investment program at all stages.</li> <li>▪ Evaluation of such changes impact on delivery of the business project or investment program objectives vs the Plan, including review and evaluation of factors impacting the project optimization or appreciation.</li> <li>▪ Initiation of additional endorsement and approval in case of critical deviations.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Changes that require preparation of a separate IM</li> <li>▪ Action plan to respond to deviations.</li> </ul>
7	Post-project monitoring	<ul style="list-style-type: none"> <li>▪ Collection of actual values in terms of operational indicators.</li> <li>▪ Plan/Actual analysis of KPIs.</li> <li>▪ Preparation of Lessons Learned and a deviation response action plan.</li> <li>▪ Formation of a knowledge base.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reports (plan-actual analysis),</li> <li>▪ Lessons Learned.</li> </ul>

The Investment Governance process area includes 3 supporting processes:

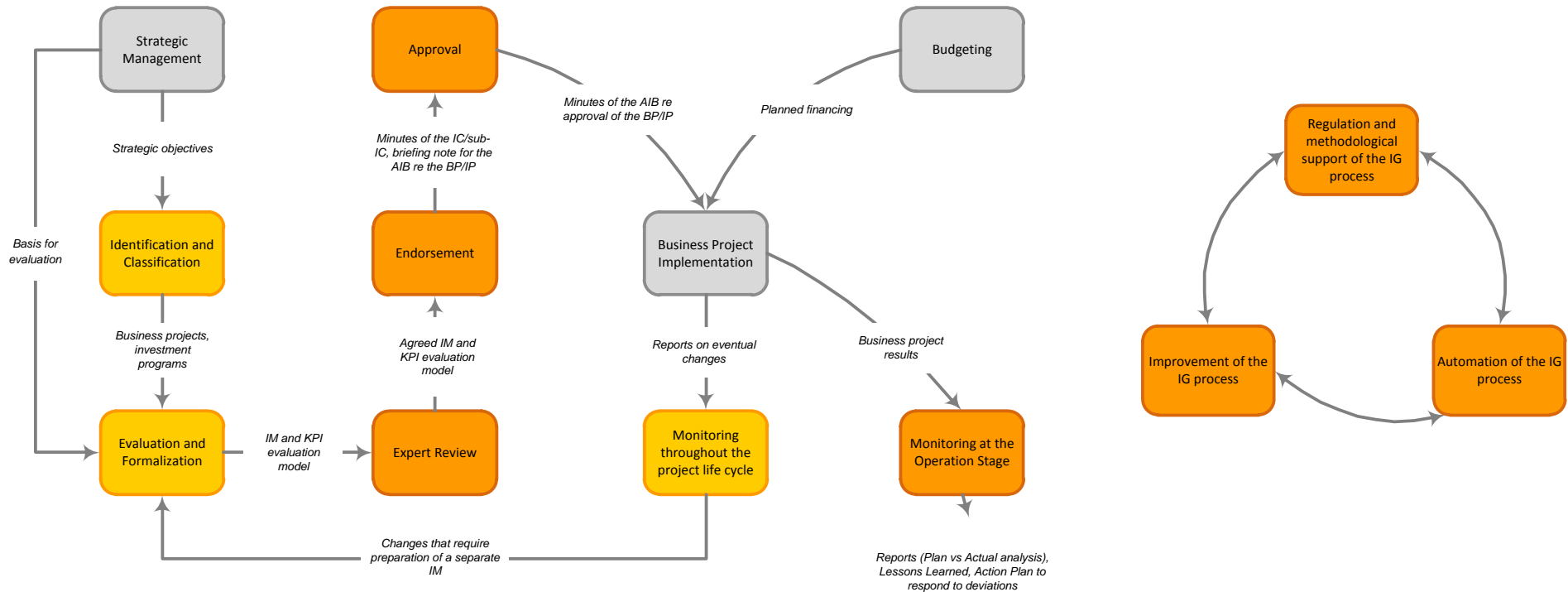
1. Regulation and methodological support of the Investment Governance process.
2. Improvement of the Investment Governance process.
3. Automation of the Investment Governance process.

# 8. INVESTMENT GOVERNANCE PERFORMANCE INDICATORS

**Table 4**  
**Investment Governance: Performance Indicators**

NO.	INDICATOR	DESCRIPTION	APPLICATION
1	2	3	4
1	Quality of investment decisions	Measured as deviation of expected KPIs (with account of historical data) vs the planned KPIs;	The KPI is used for assessing deliverables of the Investment Governance process at the corporate level (Rosneft Investment, Business Efficiency and Controlling Department) and Business Segment and Business Stream level (structural units locally supervising investment activity).
2	High-quality preparation of investment decisions	Efficiency of specialized investment subcommittees and Investment Committee of Rosneft (90% projects endorsed at the first submission attempt);	
3	Availability and fulfillment of corporate requirements	Management of all business projects and investment programs of the Company shall be aligned with the corporate requirements regarding investment governance	
4	Balance of the investment portfolio	Aggregated return on capital employed for the portfolio as a result of efficient business projects and investment programs, which illustrates efficiency of resource use within the framework of the Company strategic priorities.	

**Fig. 2 Investment Governance and Adjacent Processes**



– sub-processes of the IG process

– IG sub-processes involving the Investment, Business Efficiency and Controlling Department

– processes adjacent to the IG process

## 9. LEVELS OF MANAGEMENT, RESPONSIBILITY AND AUTHORITY ALLOCATION

The Investment Governance process owner shall be the Rosneft top manager accountable for arrangement of investment activity.

To ensure successful delivery of objectives set herein, the Company should have a comprehensive investment governance system, including the following bodies and structural units:

- Rosneft structural units – Investment, Business Efficiency and Controlling Department of Rosneft, which shall be accountable for arrangement of investment governance process throughout the Company, as well as respective support;
- structural units of Business Streams and Business Segments, which shall ensure supervision of investment governance processes.
- structural units accountable for investment governance at the Group entity level;
- expert bodies reviewing and endorsing business projects and investment programs (Investment Committee of Rosneft and its specialized subcommittees);
- authorities making investment decisions (authorized investment bodies in accordance with the Rosneft Charter).

**Table 5**  
**Investment Governance: Business Processes, Participants and Responsibilities**

NO.	BUSINESS PROCESS	PARTICIPANTS	RESPONSIBLE
1	2	3	4
1	Identification and classification	<ul style="list-style-type: none"> <li>▪ Supervisor</li> <li>▪ Structural units accountable for investment governance at the GE and BST levels</li> </ul>	Supervisor
2	Evaluation and formalization	<ul style="list-style-type: none"> <li>▪ Supervisor</li> <li>▪ Customer of the business project</li> <li>▪ Structural units accountable for investment governance at the GE and BST levels.</li> </ul>	Customer of the business project
3	Expert review	<ul style="list-style-type: none"> <li>▪ Supervisor</li> <li>▪ Customer of the business project</li> <li>▪ Investment, Business Efficiency and Controlling Department of Rosneft</li> <li>▪ Structural units accountable for investment governance at the GE, BST and BS levels.</li> <li>▪ Structural units of Rosneft within respective terms of references</li> </ul>	Customer of the business project
4	Endorsement	<ul style="list-style-type: none"> <li>▪ Supervisor</li> <li>▪ Customer of the business project</li> <li>▪ Investment, Business Efficiency and Controlling Department of Rosneft</li> <li>▪ Investment Committee — business projects and investment programs with investments exceeding IALs of specialized</li> </ul>	Supervisor

NO.	BUSINESS PROCESS	PARTICIPANTS	RESPONSIBLE
1	2	3	4
		<p>subcommittees</p> <ul style="list-style-type: none"> <li>▪ Specialized subcommittee of the Investment Committee — business projects and investment programs with investments within the scope of the IAL.</li> </ul>	
5	Approval	<ul style="list-style-type: none"> <li>▪ Supervisor</li> <li>▪ Customer of the business project</li> <li>▪ Management Board — business projects and investment programs with investments within the terms of reference defined by the Rosneft Charter.</li> <li>▪ Board of Directors — business projects and investment programs with investments within the terms of reference defined by the Rosneft Charter.</li> </ul>	Supervisor
6	Monitoring and control throughout the business project life cycle	<ul style="list-style-type: none"> <li>▪ Supervisor</li> <li>▪ Customer of the business project</li> <li>▪ Business project manager</li> <li>▪ Investment, Business Efficiency and Controlling Department of Rosneft</li> <li>▪ Structural units accountable for investment governance at the GE, BST and BS levels.</li> </ul>	Customer of the business project
7	Post-project monitoring	<ul style="list-style-type: none"> <li>▪ Supervisor</li> <li>▪ Customer of the business project.</li> <li>▪ Investment, Business Efficiency and Controlling Department of Rosneft</li> <li>▪ Structural units accountable for investment governance at the GE, BST and BS levels.</li> </ul>	Customer of the business project
8	Regulation and methodological support of the Investment Governance process	<ul style="list-style-type: none"> <li>▪ Investment, Business Efficiency and Controlling Department</li> <li>▪ Structural units accountable for investment governance at the GE, BST and BS levels.</li> </ul>	Owner of the Investment Governance process
9	Improvement of the Investment Governance process	<ul style="list-style-type: none"> <li>▪ Investment, Business Efficiency and Controlling Department</li> <li>▪ Structural units accountable for investment governance at the GE, BST and BS levels.</li> </ul>	Owner of the Investment Governance process
10	Automation of the Investment Governance process	<ul style="list-style-type: none"> <li>▪ Investment, Business Efficiency and Controlling Department</li> <li>▪ Structural units accountable for investment governance at the GE, BST and BS levels.</li> <li>▪ IT service</li> </ul>	Owner of the Investment Governance process



## 10. KEY RISKS AND MITIGATION

Investment risk management is based on the following key principles:

- identification of risks with regard to specified objectives;
- aggregation of risks from the individual project level to the Company level (project portfolio);
- quantitative risk assessment is performed via impact simulation at the project level with further aggregation to the Company level (project portfolio).

The investment risk management methodology, including risk identification, quantitative and qualitative risk assessment, development of control measures, monitoring, accumulation of a knowledge base regarding risks and lessons learned, shall be determined in respective corporate LNDs.

The **Supervisor** shall be deemed as the owner of the business project / investment program investment risk.

Stream-level structural units accountable for investment governance shall ensure investment risk identification, qualitative and quantitative assessment, as well as corrective and preventive measures.

The Rosneft Investment, Business Efficiency and Controlling Department shall be accountable for interaction with Rosneft structural units in terms of risk management in the course of investment activity, as well as collection and consolidation of investment risk data.

The Rosneft Risk Department shall be accountable for preparation of consolidated risk assessment reports in the Company as well as methodological support of the investment risk management process.

This Policy specifies the Company's main risks related to investment governance and respective corrective and preventive actions (see Table 6).

**Table 6**  
**Investment Governance: Risks**

NO.	RISK	RISK IMPLICATIONS	CORRECTIVE AND PREVENTIVE ACTIONS
1	2	3	4
1	Incompliance with the business project or investment program timeframes	Lack of production capacities, bottlenecks in operations. Actual business project performance and expected economic KPIs below the planned level, lower return on the capital employed. Failure to deliver the GE and Company business plan.	<ul style="list-style-type: none"> <li>▪ Monitoring and control of the business project or investment program timeline throughout the life cycle via monitoring and control of work progress or equipment deliveries that refer to the critical path. Monitoring and control of critical path milestones.</li> <li>▪ Timely development of a corrective action plan based on monitoring data.</li> <li>▪ Business project or investment program adjustment as a follow-up to performed monitoring throughout the life cycle in</li> </ul>

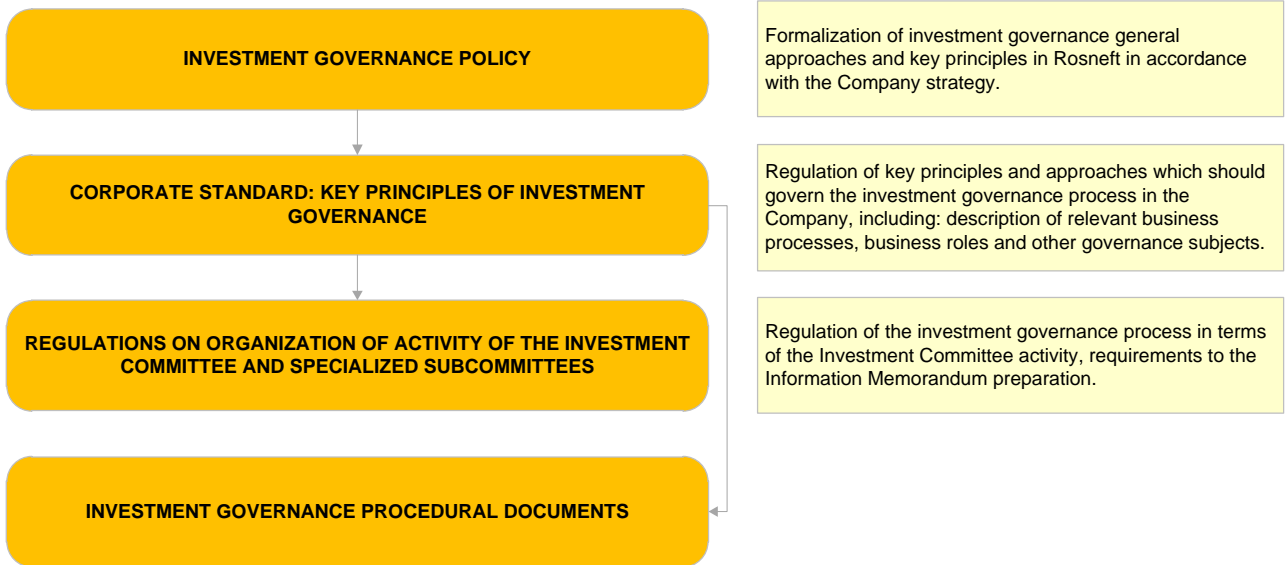
NO.	RISK	RISK IMPLICATIONS	CORRECTIVE AND PREVENTIVE ACTIONS
1	2	3	4
			<p>order to deliver the set KPIs.</p> <ul style="list-style-type: none"> <li>▪ Review of factors that have driven the project schedule changes. Analysis, codification and rollout of lessons learned.</li> <li>▪ Creation of a knowledge base, including lessons learned, typical schedules for completed business projects and investment programs. Using the knowledge base for future and ongoing projects.</li> </ul>
2	Overrunning the cost (budget) of the business project or investment program	Actual business project performance and expected economic KPIs below the planned level, lower return on the capital employed.	<ul style="list-style-type: none"> <li>▪ Functional /technical expert review of the business project or investment program changes throughout the life cycle. Review of such changes and assessment of their impact on the project or program deliverables and objectives.</li> <li>▪ Control over relevancy of the amount of financing (contracts) allocated for approved projects (IM).</li> <li>▪ Control over the project budget compliance once the procurement procedure is over.</li> <li>▪ Timely development of a corrective action plan based on monitoring data.</li> <li>▪ Business project or investment program adjustment as a follow-up to performed monitoring throughout the life cycle in order to deliver the set KPIs.</li> <li>▪ Creation of a knowledge base, including lessons learned, standard solutions with cost estimates as a follow-up to completed business projects and investment programs. Regularly updated data base including the costs of investment vehicles covered by the business project.</li> <li>▪ Application of analogue and resource methods to determine the expected scope of investments within the framework of the business project (if applicable).</li> <li>▪ For construction and upgrade business projects, control over sufficiency of design documentation, engineering documentation and relevant contracts for the envisaged construction sites according to respective business project stages.</li> </ul>

NO.	RISK	RISK IMPLICATIONS	CORRECTIVE AND PREVENTIVE ACTIONS
1	2	3	4
3	<p>Failure to deliver the project or investment program KPIs, including:</p> <ul style="list-style-type: none"> <li>▪ operational KPIs</li> <li>▪ engineering process KPIs</li> <li>▪ financial and economic KPIs</li> <li>▪ other physical and qualitative KPIs</li> </ul>	<p>Actual business project performance and expected economic KPIs below the planned level</p>	<ul style="list-style-type: none"> <li>▪ Functional / technical expert review: control over compliance with applicable legislation, internal regulations and corporate requirements, as well as checking compliance with the requirements of relevant state authorities, if required. Review of such changes and assessment of their impact on the project or program deliverables and objectives.</li> <li>▪ Economic expert review: checking main assumptions used for assessing economic efficiency of the business project or investment program.</li> <li>▪ Throughout the project life cycle, monitoring and control of the key assumptions change impact on the business project or investment program KPIs.</li> <li>▪ Identification of controllable and uncontrollable factors impacting the project KPIs. As part of controllable factors – specify the project physical parameters which can be controlled and establish a monitoring and control system to track such factors. Analysis of the project sensitivity to controllable and uncontrollable factors.</li> <li>▪ Specification of an adequate value of KPI deviations depending on the project stage.</li> <li>▪ Timely development of a corrective action plan based on monitoring data.</li> <li>▪ Business project or investment program adjustment as a follow-up to performed monitoring throughout the life cycle in order to deliver the set KPIs.</li> <li>▪ Creation of a knowledge base, including lessons learned, standard solutions with cost estimates as a follow-up to completed business projects and investment programs.</li> </ul>
4	<p>Non-optimal composition of the investment portfolio</p>	<p>Lower return on investments</p>	<ul style="list-style-type: none"> <li>▪ Rating, optimization and monitoring of the Company project portfolio on a continuous basis.</li> <li>▪ The investment portfolio optimization with account of investment limits in line with the Company forecast financial cash flow model, business planning guidelines and strategic objectives.</li> </ul>

NO.	RISK	RISK IMPLICATIONS	CORRECTIVE AND PREVENTIVE ACTIONS
1	2	3	4
5	<p>Risks related to the investment governance process and methodology, including:</p> <ul style="list-style-type: none"> <li>▪ incorrectness and incompleteness of source data;</li> <li>▪ methodology errors and inadequate application;</li> <li>▪ failure to observe applicable rules and inefficient investment decision-making</li> </ul>	Worse KPIs of the business project	<ul style="list-style-type: none"> <li>▪ Comprehensive expert review of business projects and investment programs.</li> <li>▪ Methodological support of the investment governance process (development, update, implementation and control over application of LNDs regulating investment activity).</li> <li>▪ Development, update, implementation and control over application of standard IM templates and estimate models.</li> <li>▪ Identification and classification of business projects and investment programs, making sure that projects undergo an appropriate corporate endorsement procedure.</li> </ul>

To ensure effective risk control, this Policy sets forward a need for systemic approach to risk management of each business project within the Company. The systemic nature of the approach lies in identification of key risks and management of such risks during every process of the investment governance process. This approach is directly related to comprehensive expert review of the business project prior to its submission for approval by authorized investment bodies as well as monitoring and control throughout the project life cycle.

# 11. STRUCTURE AND HIERARCHY OF LND REGULATING INVESTMENT GOVERNANCE PROCESSES



**Fig. 3 LNDs regulating the investment governance process**

## 12. POLICY COMMUNICATION AND ROLLOUT

This Policy is a public one.

This Policy does not necessarily require translation into the English language.

Communication, rollout and accessibility hereof shall be arranged in due order via informing the Rosneft and GE employees of the Policy issuance within the Company in-house IT resources.

Implementation and monitoring of the Policy compliance with the Company activity shall be performed by the manager of the top manager accountable for investment governance in Rosneft.

Annual audits shall be conducted to check the Company actual activity compliance with provisions hereof, as well as delivery of the Policy objectives stipulated in the respective section hereof. As a follow-up to such monitoring, the Policy shall be amended in due order for improvement purposes.

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## 13. REFERENCES

1. Federal Law No. 39-FZ on 'Investment Activity in the Russian Federation in the Capital Expenditure Format' as of February 25, 1999.
2. The Company's Regulations on Organization of Activity of the Investment Committee and Specialized Subcommittees in Rosneft No.ПЗ-03 P-0001 version 1.00, approved by resolution of the Management Board of Rosneft (Minutes No.5 dated March 01, 2013) and brought into effect by Rosneft Order No.185 dated April 18, 2013.