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**Rosneft Board of Directors**

**On 16 November 2015**

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# **COMPANY POLICY**

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## **RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

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# TABLE OF CONTENTS

<b>INTRODUCTORY PROVISIONS .....</b>	<b>4</b>
<b>INTRODUCTION.....</b>	<b>4</b>
<b>AIMS .....</b>	<b>4</b>
<b>TASKS .....</b>	<b>4</b>
<b>SCOPE.....</b>	<b>4</b>
<b>VALIDITY AND AMENDMENT PROCEDURE .....</b>	<b>5</b>
<b>1. TERMS AND DEFINITIONS.....</b>	<b>6</b>
<b>2. ABBREVIATIONS .....</b>	<b>12</b>
<b>3. OPERATION OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM.....</b>	<b>13</b>
<b>3.1. OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM.....</b>	<b>13</b>
<b>3.2. TASKS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM .....</b>	<b>13</b>
<b>3.3. PRINCIPLES OF OPERATION OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM.....</b>	<b>14</b>
<b>3.4. LIMITATIONS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM .....</b>	<b>15</b>
<b>4. COMPONENTS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM .....</b>	<b>16</b>
<b>4.1. CONTROL ENVIRONMENT.....</b>	<b>16</b>
<b>4.2. SETTING OBJECTIVES.....</b>	<b>17</b>
<b>4.3. IDENTIFICATION OF POTENTIAL EVENTS.....</b>	<b>18</b>
<b>4.4. ASSESSMENT OF RISKS .....</b>	<b>18</b>
<b>4.5. RESPONSE TO RISKS .....</b>	<b>18</b>
<b>4.6. CONTROL FACILITIES.....</b>	<b>19</b>
<b>4.7. INFORMATION AND COMMUNICATION.....</b>	<b>20</b>
<b>4.8. MONITORING.....</b>	<b>20</b>
<b>5. ALLOCATION OF DUTIES AND POWERS WITHIN RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM .....</b>	<b>22</b>
<b>5.1. BOARD OF DIRECTORS OF ROSNEFT .....</b>	<b>23</b>
<b>5.2. AUDIT COMMITTEE OF BOARD OF DIRECTORS OF ROSNEFT .....</b>	<b>24</b>
<b>5.3. SOLE EXECUTIVE BODY OF ROSNEFT.....</b>	<b>26</b>
<b>5.4. MANAGEMENT BOARD OF ROSNEFT.....</b>	<b>26</b>
<b>5.5. RISK MANAGEMENT COLLEGIAL BODY OF EXECUTIVE MANAGEMENT BODIES OF ROSNEFT (IF NECESSARY) .....</b>	<b>27</b>
<b>5.6. COMPANY'S MANAGEMENT TEAM .....</b>	<b>27</b>

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5.7. RISK DEPARTMENT OF ROSNEFT.....	28
5.8. INTERNAL CONTROL DEPARTMENT OF ROSNEFT .....	29
5.9. FINANCIAL CONTROL DEPARTMENT OF ROSNEFT .....	29
5.10. SECURITY SERVICE OF ROSNEFT .....	30
5.11. STRUCTURAL UNITS OF ROSNEFT PERFORMING INDIVIDUAL INTERNAL CONTROL FUNCTIONS ON BUSINESS / FUNCTIONAL BLOCKS .....	30
5.12. COMPANY'S EMPLOYEES .....	31
5.13. INTERNAL AUDIT SERVICE OF ROSNEFT .....	31
5.14. INTERNAL AUDIT COMMISSION OF ROSNEFT .....	32
6. ROLES OF BUSINESS PROCESS OWNER, CONTROL PROCEDURE OWNER AND RISK OWNER, RISK SUPERVISOR AND RISK EXPERT OF ROSNEFT .....	33
7. INTERACTION WITH EXTERNAL CONCERNED PARTIES, GOVERNMENT SUPERVISORY BODIES, EXTERNAL AUDITORS, BANKS, INSURANCE COMPANIES, SHAREHOLDERS, INVESTORS AND OTHER CONCERNED PERSONS.....	35
8. REGULATORY DOCUMENTS GOVERNING RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM .....	36
9. REGISTRATION OF AMANEMENTS TO LOCAL REGULATORY DOCUMENT .....	39

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# INTRODUCTORY PROVISIONS

## INTRODUCTION

The Company Policy «Risk Management and Internal Control System» (hereinafter - the Policy) establishes objectives, tasks, principles of operation of the risk management and internal control system of the Company and allocation of duties and powers of subjects of the risk management and internal control system within the system.

The Policy was elaborated in accordance with the Civil Code of the Russian Federation, Federal Law № 208-FZ dated December 26, 1995 «On Joint Stock Companies», Guidelines for Preparation of Regulations on Risk Management System of the Ministry of Economic Development of the Russian Federation, approved by the Government of the Russian Federation as a part of implementation of Instructions of the President of the Russian Federation № Pr-3013 dated December 27, 2014, Recommended Practice for Organization of Internal Audit Work in Joint Stock Companies with Participation of the Russian Federation, approved by order of Agency for State Property Management (Rosimuschestvo) № 249 dated July 4, 2014 and other normative legal acts of the Russian Federation, Corporate Governance Code of Rosneft № P3-01 KS-01 and the Charter of Rosneft, as well as federal regulations (standards) of audit activity and recommendations of international professional organizations in the area of risk management and internal control, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## AIMS

This Policy was elaborated for the purpose to ensure introduction and maintenance of operation of the effective risk management and internal control system, appropriate for the scale and complexity of the Company's business, international best practices and focused on provision of reasonable assurance in achievement of the Company's objectives.

## TASKS

The tasks of this Policy are as follows:

- definition of objectives, tasks, common principles and components of the risk management and internal control system of the Company;
- allocation of powers of subjects within the risk management and internal control system.

## SCOPE

This Policy is binding upon employees of:

- all structural units of Rosneft;
- all subsidiaries of Rosneft, with regard to which Charters of Entities, shareholder and other agreements with companies - partners provide for no special procedure for implementation by shareholders / participants of their rights, including for the Entity's management.

This Policy is of advisory nature for employees of dependent entities of Rosneft and Entities of Rosneft Group, in which Rosneft or its subsidiaries hold shares / participating interests in the charter capital jointly with companies – partners, and / or charters, shareholder and other agreements of which provide for a special procedure for implementation by shareholders / participants of their rights, including for management of the Entity of Rosneft Group.

Requirements of this Policy will be subject to compulsory implementation in subsidiaries and dependent entities of Rosneft, as well as in any other Entity, in which Rosneft participates directly or indirectly, after they are implemented in the Entity in accordance with its Charter with due consideration of the specificity of conditions of contracts or agreements on joint activity and pursuant to the procedure established in the Entity.

Orders, local regulatory documents and any other internal documents shall not conflict with this Policy.

## **VALIDITY AND AMENDMENT PROCEDURE**

This Policy is a permanent local regulatory document.

This Policy is approved at Rosneft by a decision of the Board of Directors of Rosneft and put into effect at Rosneft by Rosneft's order.

The Policy is recognized as ceased to be in force at Rosneft on the basis of a decision of the Board of Directors of Rosneft.

Amendments to this Policy are introduced on the basis of a decision of the Board of Directors of Rosneft and put into effect by Rosneft's order.

Introduction of amendments to this Policy is initiated by the Board of Directors of Rosneft, Audit Committee of the Board of Directors of Rosneft, Sole Executive Body of Rosneft, Management Board of Rosneft, management team of Rosneft, Risk Department of Rosneft, Internal Control Department of Rosneft, Financial Control Department of Rosneft, Security Service of Rosneft and Head of Internal Audit Service of Rosneft.

Amendments to this Policy are introduced in the following cases: amendments to the legislation of the Russian Federation, organizational structure or powers of managers, corporate system of internal communications, business processes, within which a procedure is implemented for transmission of information to employees, etc.

Keeping this Policy at Rosneft up-to-date is the responsibility of the Head of the Internal Audit Service of Rosneft.

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

# 1. TERMS AND DEFINITIONS

## TERMS AND DEFINITIONS OF CORPORATE GLOSSARY

**BUSINESS BLOCK** – a group of Rosneft’s structural units, reporting directly to the top-manager of Rosneft, responsible for a business area; Entities of Rosneft Group and / or structural units of Entities of Rosneft Group, involved in business area activities.

**BUSINESS PROCESS (PROCESS)** – a set of interrelated and interacting activities.

**BUSINESS AREA OF ACTIVITY (BUSINESS AREA)** – a set of interrelated business processes and their results, which are combined by particular signs (achievement of particular results of business activity, utilization of resources, geographic sign, etc.) for the purpose to enhance effectiveness of the Company’s management.

**BENCHMARKING** – independent, comprehensive and documented analysis, containing an adequate assessment of the current technological level of the Company in comparison with comparable companies in Russia and abroad, respectively accessible best analogues (in accordance with the world level of development of science, engineering and technologies).

**OWNER OF BUSINESS PROCESS** – an office holder, who in accordance with his / her employment duties bears responsibility for implementation, improvement of a business process and its results.

**OWNER OF CONTROL PROCEDURES** – an office holder, who in accordance with his / her employment duties bears responsibility for organization of creation and proper fulfillment of control procedures.

**RISK OWNER** – an office holder (top manager of Rosneft, Head of an Entity of Rosneft Group or his deputy, Head of a structural unit of Rosneft, Entity of Rosneft Group), who in accordance with his / her employment duties bears responsibility for management of a relevant risk with due consideration of the Company’s current procedure for making of decisions on management of risks.

**EXTERNAL AUDITOR (AUDITOR)** – a commercial organization, which is a member of one of self-regulatory organizations of auditors and having the right to audit publicly significant business entities, as well as meeting binding requirements of procurement documentation to the contractor.

**INTERNAL AUDIT** – activity for provision of independent and objective guarantees and consultations, aimed at improvement of an entity’s work. Internal audit helps the Company to achieve set objectives, including using systematized and phased approach to assessment and enhancement of efficiency of the processes for risk management, control and corporate governance.

**INTERNAL CONTROL** – a process, carried out by subjects of the risk management and internal control system, aimed at provision of reasonable assurance of achieving the following Company’s objectives:

- effectiveness of financial and economic activities;
- reliability of financial and non-financial reports;
- observance of the applicable legislation and local regulatory documents.

**INSIDER INFORMATION** – accurate and specific information (including information, which constitutes commercial, official and other secrets protected by the law), that had not been distributed or provided. Distribution or provision of such information may have a significant impact on prices of financial instruments, foreign currency and (or) goods and is classified as information included in the List of insider information of Rosneft (List of insider information).

**RISK MANAGEMENT INFRASTRUCTURE** – regulatory environment, organizational measures, organizational structure and related business processes, which make it possible to carry out the process of risk management in the whole Company. The infrastructure ensures the integration of the process for risk management with other business processes of the Company, including business - planning, internal control and audit.

**PERFORMERS OF CONTROL PROCEDURES** – subjects of the risk management and internal control system, including all employees of the Company.

**KEY ENTITY OF ROSNEFT GROUP** – an Entity of Rosneft Group, which exercise or may exercise significant influence on financial - economic and other performance indicators of Rosneft and / or on implementation of its development strategy, included in the list of Key Entities of Rosneft Group by decision of Rosneft's President.

**COMPANY** – a group of legal entities of various corporate forms, including Rosneft, with regard to which the latter acts as a parent or a predominant (participating) entity.

**COMPLIANCE CORPORATE SYSTEM** – a range of preventive activities and measures to prevent violations of the legislation, requirements industry standards and regulatory documents of the Company, for the purpose to ensure high professional and ethical standards, minimization of risks associated with non-observance of the legislation and prevention of substantial financial loss or loss of reputation.

**CONTROL PROCEDURES** – measures, actions, automatic operations of information systems or a combination of these processes, elaborated to achieve reasonable assurance, that response to a risk is carried out effectively, timely and consistently at various levels of management and makes it possible to reduce the probability and / or influence of a risk or several risks simultaneously up to an acceptable level.

**CORRECTIVE ACTIONS (MEASURES, PROCEDURES)** – actions, aimed at elimination of causes of revealed non-compliance or any other undesirable situation and undertaken to avoid recurrence of such non-compliance.

**RISK SUPERVISOR** – an office holder (top manager of Rosneft), who in accordance with his / her employment duties performs actions, aimed at effective management of the interfunctional risk. A scope of actions, performed by the risk supervisor, varies depending on the interfunctional risk, beginning from the general methodological support of risk owners and ending in organization and control of performing all works for management of the interfunctional risk.

**LIMIT OF FINANCIAL LIABILITIES** – a limit established for a structural unit of Rosneft and Entities of Rosneft Group with regard to powers for conclusion of contracts, acceptance of actually performed volumes of services and other forms of financial liabilities on supervised business processes and areas of activity, determined in terms of value.

**LOCAL REGULATORY DOCUMENT / ACT** – an internal controllable document of an established form, adopted (approved) within the scope of competence of a competent management body (an office holder) observing procedures established in the Company, which for the purpose of multiple application, establish regulations and requirements to all aspects of the Company's activity, including employees, production and management processes, systems, methods and technologies, binding upon all employees of the Company and other concerned persons, covered by it by virtue of obligations on voluntary application, effective constituent documents and corporate governance rules and / or existing contractual relationships.

**INTERFUNCTIONAL RISK** – a risk, management of which falls within responsibility of two and more risk owners. The interfunctional risk falls within responsibility of the risk supervisor.

**COMPANY'S MANAGEMENT TEAM** – top managers of Rosneft, as well as managers of Entities of Rosneft Group, deputies managers of Entities of Rosneft Group and managers of structural units of Entities of Rosneft Group, reporting directly to the Head of an Entity of Rosneft Group.

**MEASURES FOR MANAGEMENT OF RISKS** – actions, carried out by the Company with regard to a revealed risk within a selected way of respond, which make it possible to eliminate a risk or to bring the current level of risk to a level of risk acceptable for the Company (risk - appetite) through reduction of the probability for realization of a risk and / or its consequences.

**CORPORATE-WIDE RISK MANAGEMENT SYSTEM** – a set of interrelated components, integrated in various business processes of the Company, including processes of strategic and business -planning, carried out at all levels of management by all employees of the Company, for the purpose of:

- creation and preservation of the Company's value;
- effective achievement of set objectives, including strategic objectives and business plan indicators.

The corporate-wide risk management system consists of two interrelated blocks: risk management infrastructure and risk management process.

**MANAGEMENT BODIES OF ROSNEFT** – General Meeting of Shareholders of Rosneft, Board of Directors of Rosneft, Management Board of Rosneft, Sole Executive Body of Rosneft.

**ENTITIES OF ROSNEFT GROUP** – business entities, a direct and (or) indirect Rosneft's ownership interest of shares or stakes in charter capitals of which is 20 percent and more.

**RISK REPORTS** – Register of Risks and Measures and Risk Map, containing the information about risks, their assessment, measures for management of relevant risks, information about employees, responsible for management of risks.

**ASSESSMENT OF RISKS** – a process for analysis of identified risks and their consequences for the purpose to ensure further management of risks, including their elimination, and introduction of necessary control procedures.

**ACCEPTABLE RISK LEVEL** – an acceptable level of deviation with regard to achievement of set objectives, established based on the analysis of risk factors, risk consequences, expenses and results obtained from reduction of risk, as well as real probabilities of the Company for reduction of risk



through risk management measures. An acceptable risk level is equivalent to a risk - appetite from the time of approval of the risk-appetite in the Company.

**INSPECTION** – a form of carrying out control activity to implement objectives, tasks, functions and powers of internal audit. Inspections may include but not limited to:

- **AUDIT** – an inspection based on the method of preventive control, aimed at assessment, analysis and expression of an opinion about effectiveness of implementing business - projects, business processes, business - areas, risk management system and internal control, corporate governance, for the purpose to elaborate proposals on enhancement of efficiency of activities carried out by an audited entity;
- **THEMATIC INSPECTION** – an inspection based on the method of subsequent control, providing for inspecting specific parts and areas of work of an audited entity, which are mostly at risk, for the purpose to reveal facts of positive practice, violations, shortcomings, assessment of risks and elaboration of proposals on enhancement of efficiency of activity carried out by an audited entity;
- **REVISION** – an inspection based on the comprehensive method of subsequent control, providing for comprehensive analysis of financial and economic activities of an audited entity for the purpose to reveal facts of positive practice, violations, shortcomings, risks and elaboration of proposals on enhancement of efficiency of activity carried out by an entity under revision.

**REASONABLE ASSURANCE** – a condition, under which internal control provides for no absolute guarantee of achieving the Company’s objectives by virtue of limitations inherent to internal environment (for example, a human factor, force-majeure events, others).

**RISK** – a combination of probability of an undesired event and its potential consequences, threat of adverse effect of an undesired event on achievement of the Company’s objectives.

**RISK - APPETITE** – the size of a risk in quantitative and qualitative terms, which the Company is ready to accept in the process of creating the value, achieving its objectives, performing its mission or implementing strategic vision.

**CORPORATE LEVEL RISKS** – risks of the level of Rosneft’s management bodies.

**INTERNAL CONTROL SYSTEM** – a 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 to ensure proper conduct of business activity: to ensure financial stability of the Company, achieving of the optimal balance between the growth of its value, profitability and risks of business processes, to conduct business activity in an orderly and effective manner, to ensure safety of assets, revelation, correction and prevention of violations, observance of the applicable legislation and local regulatory documents, timely preparation of reliable financial reports for the purpose to improve investment attractiveness.

**RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (RM&ICS)** – represents a set 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 risk management and internal control, applicable in the Company at all levels of management and within all functional areas.

**INTERNAL AUDIT SERVICE** – a set of structural units of Rosneft as a part of the Operating Audit Department, Corporate Audit Department, Regional Audit Department, Division of Economic and Organizational Analysis, Division of Methodology and Organization of Internal Audit, reporting directly to the Head of the Internal Audit Service of Rosneft.

**CONTROL FACILITIES** – actions, provided for by local regulatory documents of the Company, and aimed at fulfillment of control procedures by means of separation of duties and delineation of rights of access, authorization (agreement, approval of documents / operations), exercising control over safety of assets, reconciliation of data, assessment of business processes and providing reasonable assurance in achievement of the Company's objectives.

**STRUCTURAL UNIT** – a structural unit with its individual functions, tasks and responsibility within the scope of its competence, determined under the Regulations on Structural Unit.

**STRUCTURAL UNITS OF FINANCIAL - ECONOMIC BLOCK OF ROSNEFT** – managers of the Company and units of the Company subordinated to a top manager of Rosneft, responsible for economics and finances.

**SUBJECTS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM OF ROSNEFT** – the Board of Directors of Rosneft, Audit Committee of Board of Directors of Rosneft, Sole Executive Body of Rosneft, Management Board of Rosneft, Internal Audit Commission of Rosneft, management team of Rosneft, managers of structural units and employees of Rosneft, responsible for organization and operation of the risk management and internal control system, Internal Control Department of Rosneft, Financial Control Department of Rosneft, Risk Department of Rosneft, Security Service of Rosneft, Internal Audit Service of Rosneft.

**SUBJECTS OF 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 Boards), Internal Audit Commissions and executive bodies, management team and employees of Entities of Rosneft Group, responsible for organization and operation of the risk management and internal control system, Internal Audit Unit, Security Service Unit, internal auditor of Entity of Rosneft Group (in accordance with the constituent documents and organizational structure).

**TOLERANCE FOR RISK** – allowable deviation of results from targets upon achievement of objectives.

**MANAGEMENT OF RISKS** – a continuous process, carried out by the Board of Directors of Rosneft and Board of Directors of Entities of Rosneft Group, Committees of Board of Directors of Rosneft and Committees of Board of Directors of Entities of Rosneft Group, executive bodies, management team and employees of the Company, affecting the whole activity of the Company and aimed at identification, analysis and assessment of risks, as well as elaboration of measures for their minimization.

**FINANCIAL AND ECONOMIC ACTIVITY** – a set of financial and economic operations.

**FINANCIAL CONTROL** – a part of the unified risk management and internal control system, representing a set of control procedures to ensure target use of financial both at the stage of planning, and implementing of a business plan and budget in Rosneft and Entities of Rosneft Group, aimed to ensure effectiveness of financial and economic activities of the Company and to observe interests of the Company's shareholders.

**RISK EXPERT OF ROSNEFT** – an employee (-s) of Rosneft (in any capacity not higher than Director of Department), appropriately trained in a method for assessment and management of risks, appointed by the risk owner, providing assistance to the risk owner and risk supervisor in issues concerning revelation and assessment of risks, preparation of reports on risks, coordination of work on risks in a structural unit of Rosneft.

**TOP MANAGERS OF ROSNEFT** – First Vice-Presidents of Rosneft, Vice-Presidents of Rosneft, Chief Accountant of Rosneft, Financial Director of Rosneft, advisers and managers of structural units of Rosneft and services of Rosneft in the rank of Vice-Presidents.

## 2. ABBREVIATIONS

**LRD** – local regulatory document.

**IAS** – Internal Audit Service.

**RM&ICS** – risk management and internal control system.

**SU** – structural unit.

### 3. OPERATION OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

#### 3.1. OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Creation and effective operation of the risk management and internal control system is focused on provision of reasonable assurance in achievement of the Company's objectives, which can be classified into four main categories:

- strategic objectives, facilitating performance of the Company's mission;
- operation objectives, concerning effectiveness of financial and economic activities of the Company, as well as ensuring safety of assets;
- objectives in the area of compliance of the Company's activity with legislative requirements and requirements of local regulatory documents, including requirements of labour protection, industrial, information, ecological and personal safety;
- objectives in the area of timely preparation of reliable financial or non-financial reports, internal and / or external reports.

Effective operation of RM&ICS makes it possible to ensure proper control of financial and economic activities of the Company.

#### 3.2. TASKS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The tasks of RM&ICS are as follows:

- identification, analysis and assessment of risks, arising at all organizational levels of the Company, effective management of relevant risks, including effective allocation and use of available resources for management of risks;
- improvement of the infrastructure and the process for risk management and internal control of the Company;
- creation of a reliable information basis with regard to RM&ICS for planning of activity and making weighted (with due consideration of risk and existing internal control) management decisions;
- creation of mechanisms for internal control, ensuring effective operation of business - processes and implementation of business - projects of the Company;
- standardization and regulation of key procedures in the area of risk management and internal control;
- ensuring of building in the Company of the optimal organizational structure, meeting its requirements on the basis of the principle of separating duties between subjects of RM&ICS;
- ensuring safety of assets of the Company and effectiveness of using the Company's resources;
- ensuring of objective, fair and clear idea of the current state and prospects of the Company's development, integrity and transparency of the Company's reports, reasonableness and acceptability of risks assumed by the Company;

- ensuring effective operation of control procedures<sup>1</sup>, aimed at reduction of risks associated with involvement of the Company in corrupt activity and corporate fraud in the Company;
- protection of interests of the Company's shareholders, inspection of counteragents and analysis of their anti-corruption procedures, as well as prevention and elimination of conflict of interests;
- creation of conditions for timely preparation and provision of reliable reports for internal and external use, as well as any other information, subject to disclosure in accordance with the applicable legislation;
- ensuring observance by the Company of the applicable legislation, local regulatory documents.

### 3.3. PRINCIPLES OF OPERATION OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Operation of RM&ICS is based in the following principles:

- Principle of continuity. RM&ICS operates on the continuing basis in the course of the Company's financial and economic activities and performance of management functions.
- Principle of integration. RM&ICS is a part of the Company's corporate management, control procedures allow to ensure implementing measures of response to risks for the purpose of their elimination or minimization.
- Principle of full responsibility. All subjects of RM&ICS bear responsibility for identification, assessment, analysis and continuous monitoring of risks in the course of their activities, elaboration and introduction of necessary measures for management of risks and control facilities, their application within the scope of its competence, continuous monitoring of effectiveness of measures for management of risks and control facilities.
- Principle of reasonable approach to formalization of control procedures and documenting RM&ICS. The Company tends to formalize main control procedures and to document the work within RM&ICS to the intent that volumes of documentation and formalization were necessary and sufficient for effective operation of RM&ICS and could be updated by the Company.
- Principle of methodological unity. Internal control (elaboration, introduction and monitoring of effectiveness of control procedures) and management of risks (identification, analysis, assessment of risks, elaboration and introduction of measures for management of risks, monitoring of effectiveness of measures for management of risks) are carried out on the basis of standards. The internal control system is an integral part of the risk management system.
- Principle of separation of powers and duties. Duties and powers are divided among subjects of RM&ICS for the purpose of exclusion or reduction of the risk of error and / or corporate fraud through prevention of entrusting the function of elaboration, approval, application, monitoring and assessment of operations on one subject of RM&ICS.
- Principle of risk orientation. The maximum effectiveness of internal control is achieved through prioritization of forces on improvement of RM&ICS with due consideration criticality of risks, inherent to some or other area of the Company's activity.

<sup>1</sup> In accordance with UK Bribery Act 2010, FCPA (Foreign Corrupt Practices Act 1977, legislation of the Russian Federation in this area (Civil Code of the Russian Federation, Administrative Offences Code of the Russian Federation, Federal Law № 273-FZ «On Combatting Corruption» dated December 25, 2008) and local regulatory documents of the Company.

- Principle of optimality. The analysis is carried out with regard to expenses for introduction of control procedures and effect from measures for management of risks and implementation of control procedures. The volume and complexity of measures for management of risks and procedures of internal control shall be necessary and sufficient for fulfilling tasks and achieving objectives of elimination and / or minimization of risks.
- Principle of adaptivity and development of RM&ICS. The management team provides conditions for constant development of RM&ICS with due consideration of the necessity to solve new tasks, arising as a result of changes in internal and external conditions of the Company's activity.
- Principle of reasonable assurance. Measures carried out for management of risks are considered to be effective, if they make it possible to reduce a risk up to an acceptable level. When elaborating, performing and assessing control procedures it is necessary to take into account, that a control procedure is considered to be effective only upon achievement of the process objectives. In this case all taken actions in the aggregate ensure obtainment of acceptable, but not absolute assurance in achievement of objectives of RM&ICS operation.

When performing their employment duties within the scope of its competence the Company's employees shall be governed by the above principles.

### **3.4. LIMITATIONS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

RM&ICS is aimed at provision of reasonable assurance in achievement of the Company's objectives. The Company admits availability of certain limitations of RM&ICS, which may influence on achievement of the Company's objectives due to influence of the following factors:

- subjectiveness of judgments, formed as a result of:
  - ♦ wrong selection of control facilities and measures, aimed at management of risks;
  - ♦ wrong interpretation of requirements of the legislation and / or local regulatory documents;
- lack of sufficient statistical data for assessment with a degree of accuracy required for the Company;
- association of two and more persons, suggesting deliberate actions of the Company's employees for violation of control facilities;
- errors of employees due to negligence and / or insufficient level of competence.

There are hardly manageable risks, when Rosneft and an Entity of Rosneft Group cannot impact on sources and factors of risk, and therefore, cannot influence on the probability and consequences of risk realization.

## 4. COMPONENTS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company tends to systematize activity in the area of risk management and internal control for simplification of monitoring and improvement of RM&ICS, tracking dynamic changes of RM&ICS with due consideration of changes in external business - environment and internal needs of the Company. The risk management and internal control system of the Company represents a set of interrelated components, the structure of which complies with the generally accepted methodology COSO IC-IF<sup>2</sup>. The risk management and internal control system consists of eight interrelated components:

- control environment;
- setting objectives;
- identification of potential events;
- assessment of risks;
- response to risks;
- control facilities;
- information and communication;
- monitoring.

### 4.1. CONTROL ENVIRONMENT

The control environment includes position, awareness and actions of management bodies respectively the risk management and internal control system of the Company, as well as understanding the importance of such system for its activity. The control environment of the Company influences on the consciousness of employees with regard to control. It is a basis for the effective internal control system, which ensures maintenance of discipline and order. The main components, which influence on formation of the control environment, are as follows:

- Management style:
  - ♦ the management style of management bodies of Rosneft and the management team of the Company forms due understanding and perception of RM&ICS by employees of the Company;
  - ♦ principles and norms of carrying out activities, forming the management style in the Company, comply with the mission and corporate values of the Company, as well as are focused on achievement of the Company's strategic objectives.
- Strategy and objectives of activity:
  - ♦ RM&ICS is built and improved with continuous analysis of achieving objectives to implement the Company's strategic plans;

<sup>2</sup> COSO Internal Control – Integrated Framework (COSO IC-IF) – «Internal control. Integrated model» - a methodological document in the area of internal control issued in 1992 . COSO (The Committee of Sponsoring Organizations of the Treadway Commission) – founded in 1985. Treadway Commission is an independent private organization, that study factors leading to formation of fraudulent reporting and giving recommendations to companies, independent (external) auditors and other institutes.



- ♦ individual objectives of employees and structural units of Rosneft and Entities of Rosneft Group shall comply and be consistent with the Development Strategy of Rosneft and its objectives.
- Organizational structure:
  - ♦ ensures effective operation of the Company's RM&ICS through allocation of duties and assignment of responsibility for fulfillment of control procedures between employees of the Company at all levels of management, excluding duplication and overlapping of functions, which potentially may cause internal conflict of interests, as well as threat to continuity and safety of business processes;
  - ♦ meet the principle of independence and objectivity of internal audit.
- Culture and ethical values:
  - ♦ the Company approved and put into effect the Code of Business and Corporate Ethics of Rosneft № P3-01.06 P-01, which reflects corporate values, ethical principles and defines expected models of behavior of the Company's employees, influencing on RM&ICS operation;
  - ♦ the Company considers any manifestations of corporate fraud as inadmissible, irrespective of the amount of damage caused, and takes active measures against corporate fraud.
  - ♦ the Company adheres to the principle of rejecting corruption in any forms and manifestations in the course of operating, investment and other activities.
- Competency and development of employees:
  - ♦ the Company determined requirements to qualification and experience of employees, necessary for performance by them of their duties, which make it possible to effectively perform existing control procedures and measures for management of risks, to timely identify new risks and to introduce new control procedures and measures for management of risks;
  - ♦ in the course of implementation of the programs for continuous professional development and improvement of qualification of employees, required for achieving the Company's objectives, employees are regularly trained and assessed, and requirements to employees are regularly revised in accordance with changes in the Company's needs.

## 4.2. SETTING OBJECTIVES

Setting the Company's objectives is a preliminary condition for revelation and assessment of risks. Objectives and tasks shall comply with strategic area of the Company's development and facilitate their implementation. Objectives form the basis for introduction and implementation of approaches to assessment of risks and subsequent determination of control procedures.

When defining objectives the Company's management team, considers the following issues:

- compliance of set objectives and tasks with the Development Strategy of Rosneft;
- determination of tolerance to risk;
- compliance of set objectives and tasks of the Company with the applicable legislation and local regulatory documents;

- formulation of objectives using indicators, which are specific, measurable, achievable, relevant and time-bound;
- allocation of objectives between Rosneft and Entities of Rosneft Group.

Objectives and tasks shall be confirmed by the management team of the Company before they are used as a basis for assessment of risks.

#### **4.3. IDENTIFICATION OF POTENTIAL EVENTS**

Identification of potential events lies in determination of events, arising out of internal or external sources with respect to the Company and influence on achievement of the Company's objectives. Internal and external events are determined with due consideration of their division into risks and opportunities. The Company's management team bears responsibility for elaboration of measures to respond to events, representing risks, for the purpose to prevent or to reduce the probability for their occurrence and / or to minimize the influence of these events up to an acceptable level (risk - appetite). The Company's management team bears responsibility for search and use of opportunities, which may positively influence on achievement of the Company's objectives. Risks and opportunities are considered by the management team of the Company in the process of forming the Development Strategy of Rosneft and setting objectives.

Within the framework of the corporate-wide system of risk management the Company's management team bears responsibility for identification of risks on a regular basis and inclusion of relevant information in risk reports. Identification of risks is carried out at various levels of the Company's management, including the corporate level, level of business blocks / functional blocks and level of Entities of Rosneft Group. The Company's management team bears responsibility for completeness of risk identification.

#### **4.4. ASSESSMENT OF RISKS**

Assessment of risks represents a process for analysis of identified risks and their consequences for the purpose to ensure further management of risks, including their elimination or minimization, introduction of necessary control procedures. Formalized procedures for identification and assessment of risks make it possible to obtain comparable results of risk assessment for prioritization of forces on their management and introduction of necessary control procedures.

#### **4.5. RESPONSE TO RISKS**

Based on results of assessment of identified risks the Company's management team bears responsibility for selection of a method to respond to risks, elaboration and introduction of measures for management of risks. When selecting methods to respond to risks and specific measures to manage risks the Company is governed by the principle of optimality and observing an acceptable risk level (risk - appetite). The information about respond methods and risk management measures is also included in risk reports.

## 4.6. CONTROL FACILITIES

Control facilities - actions, provided for by local regulatory documents and other internal documents of the Company:

- Local regulatory documents and other internal documents:
  - ♦ are elaborated in accordance with the Development Strategy of Rosneft, operating objectives and tasks of the Company, are brought to notice of employees and consistently applied in the Company's activity;
  - ♦ are revised and updated on a regular basis for the purpose to reflect changes in activity of structural units or the whole Company, as well as requirements of the applicable legislation. For this purpose procedures were introduced to monitor changes in the applicable legislation.
- Control procedures. The process for elaboration and implementation of control procedures is based on the principle of risk orientation and principle of adaptivity. Control procedures are carried out in accordance with local regulatory documents, order, organizational and other internal documents of the Company, and are aimed at achievement of RM&ICS objectives. The Company uses the following types of control procedures:
  - ♦ separation of duties and segregation rights of access in information systems. Control procedures are carried out through establishment of requirements in duty instructions and local regulatory documents, describing interaction of subjects of the Company's RM&ICS, preventing duplication of functions, as well as combining by one employee of activities associated with initiation, performance and control of operations. This method provides for implementing the principles of separation of critical powers in information systems and restriction of rights of access, depending on the level of agreed powers, to confidential information;
  - ♦ authorization (agreement, approval of documents / operations). These control procedures are carried out through provision of employees, in accordance with their duty instructions, with powers to performance of specific actions: obtainment of a permit for performance of operations, agreement or approval of documents /operations. An employee, carrying out control within the scope of his / her competence, verifies and confirms reliability, completeness and consistency of information, contained in a document / available for performance of an operation, correctness of executing a document / operation and compliance with the applicable legislation and local regulatory documents, as well as availability of necessary attachments and accompanying documents. When approving an authorized person introduces a document into effect or gives a final consent to performance of an operation, assuming responsibility for its performance / introduction of a document into effect;
  - ♦ physical control over safety of assets. Control procedures are carried out by means of proper equipping places to store commodity and material valuables (CMV), conclusion of contracts on material responsibility with persons, responsible for operations with CMV, conduct of scheduled and non-scheduled inventories of property and obligations in accordance with local regulatory documents and applicable requirements of the legislation and control over safety of intangible assets, including verification of proper execution of primary legal and accounting documents and organization of accounting of intellectual property;
  - ♦ reconciliation of data and comparative analysis of performance indicators, assessment of effectiveness of activity. Control procedures are carried out for verification of accuracy, completeness, consistency and correctness of information, obtained from various sources,

and authorization of operations (for example, data, entered into information systems, are controlled with regard to their changes). The Company carries out horizontal analysis of indicators, comparison of actual performance indicators with budget figures, analysis of key performance indicators, benchmarking, monitoring of implementing core initiatives, such as improvement of production processes, reduction of expenses, etc.

The Company tends to maximally automate procedures for importing and transformation of information, including to ensure the use of templates and data import filters in electronic forms of reports and procedures of automatic calculation, built-in in data processing programs, for the purpose to reduce the risk of error in case of manual entry and processing of data.

#### **4.7. INFORMATION AND COMMUNICATION**

Information and communication create conditions, necessary for implementation of management functions, making of timely and reasonable decisions, performance of employment duties by employees of the Company.

The Company has channels for exchange of information, including, both vertical, and horizontal ties, which ensure informing all subjects of the Company's RM&ICS, including informing about changes in business processes of the Company, about risks, measures for management of risks, shortcomings of control procedures, plans of measures for elimination of shortcomings of control procedures. The Company introduced information systems. These systems make it possible to maintain exchange of information at all levels of management, to bring to notice of the Company's employees, within their competencies, requirements of the Board of Directors and executive bodies of the Company.

Control of managing information flows and ensuring information safety are governed by approved local regulatory documents. The Company has a well-organized system for disclosure of information and communications with clients, suppliers, regulatory bodies, shareholders and employees.

The Company organizes the «Hot safety line», which provides safe, confidential and accessible way to inform the Audit Committee of Board of Directors of Rosneft and the Internal Audit Service of Rosneft about facts of violation of the legislation, internal procedures of the Company and is a tool to implement the Company's policy of countering thefts at the Company's facilities as well as against corporate fraud and corruption.

The Company ensures operation of the effective system for informing about any suspicions in criminal behavior and (or) about violations with regard to the effective legislation, local regulatory documents, order, organizational and other internal documents of the Company on the part of the Company's employees and third persons.

#### **4.8. MONITORING**

Monitoring of RM&ICS is aimed at conduct of regular assessment of RM&ICS effectiveness with regard to revelation of material weaknesses of RM&ICS, its capability to ensure fulfillment of its objectives and tasks.

Monitoring of RM&ICS is carried out by means of:

- continuous monitoring of operation of control facilities and fulfillment of measures for management of risks and their effectiveness on the part of the management team and employees of the Company within their competence;
- conduct by subjects of RM&ICS of self-assessment procedures;
- conduct by Internal Audit Service of inspections, as well as assessment of reliability and effectiveness of the risk management and internal control system;
- consideration by the Board of Directors of Rosneft (Audit Committee of Board of Directors) of results of analysis and assessment of effectiveness of RM&ICS operation;
- timely dissemination of information about identified shortcomings of RM&ICS among subjects of RM&ICS of a relevant level, depending on the significance of shortcomings.

Monitoring of RM&ICS is carried out by subjects of RM&ICS in accordance with the rules, established under local regulatory documents, order, organizational and other internal documents of the Company.

Results of RM&ICS assessment are used in preparing a section in the Annual Report and Sustainability Report of Rosneft, reflecting issues concerning risk management and internal control.

## 5. ALLOCATION OF DUTIES AND POWERS WITHIN RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The risk management and internal control system of Rosneft is represented by subjects of RM&ICS of Rosneft, the roles of which are segregated depending on their participation in the processes for elaboration, introduction and monitoring of RM&ICS effectiveness.

**Table 1**  
**Subjects of risk management and internal control system of the Company**

<b>STRATEGIC LEVEL OF MANAGEMENT</b>	Board of Directors of Rosneft, Audit Committee of Board of Directors of Rosneft determine the principles of operation and main areas of RM&ICS development, control of their implementation, organization of analysis and assessment of effectiveness of RM&ICS operation, influencing on understanding the importance of the system by employees of the Company.
<b>OPERATING LEVEL OF MANAGEMENT</b>	Sole Executive Body of Rosneft, Management Board of Rosneft, Company's management team directly elaborate, introduce and implement programs for improvement of RM&ICS.
	Risk Department of Rosneft, Internal Control Department of Rosneft are involved in coordination of the processes for risk management and internal control, development and updating of the methodological base in the area of organizing the processes for risk management and internal control.
	Financial Control Department carries out coordination of the processes for financial control, development and updating of the methodological base in the area of organizing processes for financial control.
	Security Service of Rosneft carries out coordination of processes in the area of countering corruption and fraud.
	Structural units of Rosneft, performing individual functions of internal control on business / functional blocks within RM&ICS.
<b>INDEPENDENT MONITORING AND ASSESSMENT OF RM&amp;ICS EFFECTIVENESS</b>	Internal Audit Commission of Rosneft carries out control of financial and economic activities of Rosneft.
	Internal Audit Service of Rosneft carries out independent assessment of RM&ICS effectiveness at the corporate level and at the level of business processes.

Subjects of RM&ICS of each level play their roles through implementation of rights and duties within their competence, stipulated in the applicable legislation, Charter of Rosneft and local regulatory documents of the Company and in accordance with organizational, order documents, duty instructions and regulations on structural units.

The model of functions and duties of subjects of RM&ICS represented in this section is described at the level of Rosneft and may be disseminated in Entities of Rosneft Group with due consideration of their objectives and organizational duties.

## 5.1. BOARD OF DIRECTORS OF ROSNEFT

The Board of Directors of Rosneft forms principles and approaches to organization of RM&ICS, approves main areas of RM&ICS development, controls their implementation, organizes conduct of analysis and assessment of effectiveness of RM&ICS operation, in accordance with powers, stipulated in the Charter of Rosneft .

The scope of competence of the Board of Directors of Rosneft applicably to RM&ICS includes:

- determination of priority areas of activity;
- approval of a long-term development strategy and control over its implementing;
- preliminary approval of the annual report of Rosneft;
- approval of plans of financial and economic activities (business plans, budgets) of Rosneft and control over their implementing;
- approval of main areas for development of the risk management and internal control system, control of their implementation;
- organization of analysis and assessment of effectiveness of operation of the risk management and internal control system;
- determination of key performance indicators of members of the Management Board, Sole Executive Body and top managers of Rosneft;
- making of a decision on conduct of an inspection by the Internal Audit Commission of financial and economic activity of Rosneft, consideration of results of such inspection, and making of a decision on them if the need arises;
- making of a decision on appointment and dismissal of the Head of the Internal Audit Service;
- consideration of reports of the Internal Audit Service;
- approval of internal documents of Rosneft:
  - ◆ code of corporate conduct (management);
  - ◆ code of business and corporate ethics;
  - ◆ of the Policy level in the area of:
    - determination of a model for business organization (including determination of key management and business processes, principles for forming of Rosneft's organizational structure and its changes);
    - corporate governance;
    - the risk management and internal control system;
    - management of conflicts of interests;
    - internal audit (Regulations on Internal Audit, determining objectives, tasks and powers of a structural unit, performing internal audit functions in Rosneft);
    - management of finances and reports;

- dividend policy (Regulations on Dividend Policy);
- countering involvement in corrupt activity;
- information policy, including countering illegal use of insider information;
- ◆ and other internal documents on issues, falling within the scope of competence of the Board of Directors;
- making of a decision on any other issues, concerning RM&ICS operation.

In accordance with the Charter of Rosneft <sup>3</sup> the Board of Directors has also the right to:

- consider reports on risks of the corporate level;
- approve an acceptable risk level (risk - appetite).

At least once a year the Board of Directors of Rosneft considers issues concerning organization, operation and effectiveness of the risk management and internal control system and if necessary gives recommendations on its improvement. The information about results of consideration by the Board of Directors of Rosneft of the issues concerning effectiveness of the risk management and internal control system is provided to shareholders as a part of the annual report of Rosneft.

## 5.2. AUDIT COMMITTEE OF BOARD OF DIRECTORS OF ROSNEFT

The scope of functions of the Audit Committee of Board of Directors of Rosneft within RM&ICS includes:

- Control over effectiveness of operation and reliability of the risk management and internal control system through:
  - ◆ preliminary consideration of an internal document of Rosneft of the Policy level in the area of risk management and internal control and assessment of effectiveness of its implementation;
  - ◆ control procedures, ensuring observance by Rosneft of legislative and stock exchange requirements in the area of risk management and internal control;
  - ◆ consideration of proposals on improvement of the risk management and internal control system;
  - ◆ preliminary consideration of reports on risks of the corporate level;
  - ◆ preliminary approval of an acceptable risk level (risk - appetite).
- Control over ensuring completeness, accuracy and reliability of accounting (financial) reports of Rosneft.
- Ensuring independence and objectivity of external audit.
- Ensuring independence and objectivity of internal audit, including through consideration of provided information (business operations plans, reports on results of activity, assessment of effectiveness of the risk management and internal control system, results of conduct of individual inspections, including the information about identified material shortcomings and violations, as well as plans of measures for improvement of internal audit functions).

<sup>3</sup> cl. 10.2.16.



- Monitoring of the corporate governance system of Rosneft, assessment of the corporate governance practice, elaboration of recommendations on improvement of the corporate governance system of Rosneft.
- Control over effectiveness of operation of the system for informing about potential cases of unfair acts of Rosneft's employees (including unfair use of confidential information) and third persons and other violations in activity of Rosneft.
- Ensuring regular interaction of the Board of Directors of Rosneft with executive bodies of Rosneft, structural units of financial - economic block of Rosneft, structural units of Rosneft, responsible for issues concerning management of risks, internal control and internal audit, Internal Audit Commission, internal auditor.

The scope of competence of the Audit Committee of Board of Directors of Rosneft within RM&ICS includes preliminary consideration and preparation of recommendations for the Board of Directors of Rosneft on the following issues:

- preliminary approval of the annual report of Rosneft with regard to functions of the Committee;
- approval of main areas for development of the risk management and internal control system, control of their implementation;
- organization of analysis and assessment of effectiveness of operation of the risk management and internal control system;
- making of a decision on inspection by the Internal Audit Commission of financial and economic activity of Rosneft, consideration of results of such inspection, conducted by the decision of the Board of Directors, and making of a decision on them if the need arises;
- making of a decision on appointment and dismissal of the Head of the Internal Audit Service Rosneft;
- consideration of reports on activity of the Internal Audit Service Rosneft;
- determination of the amount of remuneration to be paid for services provided by the external auditor of Rosneft;
- approval of the following internal documents of Rosneft:
  - ◆ code of corporate conduct (management);
  - ◆ local regulatory documents of the Policy level, as well as any changes and supplements to them on issues, connected with functions of the Committee in the area of:
    - corporate governance;
    - the risk management and internal control system;
    - management of conflicts of interests;
    - internal audit (Regulations on Internal Audit, determining objectives, tasks and powers of a structural unit, performing internal audit functions in Rosneft);
    - management of finances and reports;
    - dividend policy (Regulations on Dividend Policy);
    - information policy, including countering illegal use of insider information.

### 5.3. SOLE EXECUTIVE BODY OF ROSNEFT

The Sole Executive Body of Rosneft ensures implementation of Rosneft policy approved by the Board of Directors in the area of RM&ICS and formation of the effective risk management and internal control system.

The scope of competence of the Sole Executive Body of Rosneft applicably to RM&ICS includes:

- implementation of day-to-day management of Rosneft's activities in accordance with decisions of the General Meeting of Shareholders and the Board of Directors of Rosneft;
- ensuring elaboration of plans of financial and economic activities to be submitted to the Board of Directors of Rosneft for approval, as well as preliminary (prior to submission to the Board of Directors for consideration) consideration and approval of expenses, not included in the plan of financial and economic activities;
- management of elaboration for submission to the Board of Directors of Rosneft of annual reports, annual accounting (financial) reports, as well as reports on distribution of profit, including payment (declaration) of dividends, and losses based on yearly performance;
- ensuring implementation of internal control procedures;
- determination of Rosneft's position with regard to appointment / termination of powers of members of collegial executive bodies (Management Boards), Sole Executive Bodies, transfer of powers of the Sole Executive Body to the management company of Entities of Rosneft Group, not being Key Entities of Rosneft Group;
- determination of Rosneft's position with regard to approval of performance indicators of the Sole Executive Body of Entities of Rosneft Group, not being Key Entities of Rosneft Group;
- coordination of processes for management of risks<sup>4</sup> and development of the risk management and internal control system;
- approval of internal documents in the area of RM&ICS, adoption of which does not fall within the scope of competence of the General Meeting of Shareholders of Rosneft, the Board of Directors of Rosneft and the Management Board of Rosneft ;
- approval of Rosneft's internal audit action plan;
- approval of proposals based on results of audits and inspections;
- agreement of an acceptable risk level (risk - appetite);
- approval of reports on risks of the corporate level (prior to submission for consideration to the Audit Committee of Board of Directors of Rosneft);
- organization of creation and maintenance of operation of the effective RM&ICS in the Company.

### 5.4. MANAGEMENT BOARD OF ROSNEFT

The scope of competence of the Management Board of Rosneft within RM&ICS includes:

- preliminary determination (before determination by the Board of Directors of Rosneft) of priority areas of Rosneft's activity;
- organization of work for implementation of priority areas of Rosneft's activity;

<sup>4</sup> Including approval of the Company's key risks influencing on the Company's capability to achieve set objectives.

- approval of Rosneft's organizational structure;
- approval of performance indicators of managers of individual structural units of Rosneft;
- agreement of appointment / termination of powers of members of collegial executive bodies (Management Boards), Sole Executive Bodies, transfer of powers of the Sole Executive Body to the management company of Key Entities of Rosneft Group;
- determination of performance indicators of Key Entities of Rosneft Group;
- approval of internal documents of the Policy level, approval of which does not fall within the scope of competence of the Board of Directors of Rosneft, as well as internal documents of the Standard level and other internal documents, approval of which falls within the scope of competence of the Management Board in accordance with the Charter of Rosneft.

The Management Board of Rosneft ensures creation and maintenance of operation of the effective RM&ICS in the Company.

## **5.5. RISK MANAGEMENT COLLEGIAL BODY OF EXECUTIVE MANAGEMENT BODIES OF ROSNEFT (IF NECESSARY)**

If the need arises the executive bodies of Rosneft may form a collegial body for management of risks - Risk Management Committee. Main functions of the said collegial body for management of risks include initiation of elaboration and updating of documents in the area of CRMS, consideration of reports on identified corporate level risks, including status of implementing elaborated corrective measures for their elimination or minimization, making of decisions for management of individual risks (including in disputable situations).

## **5.6. COMPANY'S MANAGEMENT TEAM**

In the area of RM&ICS the Company's management team ensures:

- allocation of powers and responsibility among employees, administratively reporting to them for specific areas of internal control (forms, methods of implementation) in accordance with the principle of separation of duties;
- inclusion in job instructions of employees of functions and duties on management of risks and implementation of control procedures;
- development of the unified corporate culture, which facilitates effective operation of RM&ICS, including organization of the process for information, training and periodic confirmation by employees of knowledge and understanding of corporate culture standards and ethical principles, requirements and provisions of local regulatory documents, which influence on the procedure of RM&ICS operation;
- control over observance by employees of structural units of the Company of requirements of local regulatory documents, order, organizational and other internal documents of the Company;
- management of risks within its competencies, including identification, analysis and assessment of risks, elaboration of measures for their elimination or minimization, monitoring and formation of reports on risks in accordance with the procedure established in the Company;

- elaboration, performance of control procedures and monitoring of implementation of measures for elimination of shortcomings in control procedures;
- preparation and submission on a regular basis, as well as at the request of the senior management of a report on effectiveness of control procedures, including timely informing of the senior management about deviations in implementation of control procedures;
- monitoring of coherence of documents, governing the procedure for operation of structural units, and local regulatory documents, governing the procedure for carrying out business processes of the Company, involving a relevant structural unit;
- conduct on a regular basis of assessment of activity carried out by employees and periodic revision of requirements to qualification and programs for training personnel in the area of risk management and internal control in connection with changes in internal and external conditions of the Company's activity<sup>5</sup>.

## 5.7. RISK DEPARTMENT OF ROSNEFT

Main functions of the Risk Department within RM&ICS include:

- planning of main areas for development and integration of CRMS components in the processes of the Company management;
- organization of system interaction with structural units of Rosneft and Entities of Rosneft Group on issues concerning management of risks, carrying out monitoring of the process for risk management by structural units of Rosneft and Entities of Rosneft Group for the purpose of regular obtainment of complete and reliable management information in the area of CRMS;
- elaboration, introduction, updating of higher level local regulatory documents, governing the process of risk management at the corporate level;
- elaboration, introduction, updating of methodology in the area of ensuring the risk management process, as well as determination of an acceptable risk level (risk - appetite) of Rosneft;
- analysis of the risk portfolio and elaboration of proposals on the risk respond strategy and redistribution of resources with regard to management of relevant risks of Rosneft ;
- preparation of consolidated reports on risks;
- preparation and information of collegial bodies of Rosneft (the competence of which includes issues concerning management of risks), Sole Executive Body of Rosneft about effectiveness of the risk management process, as well as about any other issues in the area of risk management and monitoring of implementation of decisions made;
- organization of training for the Company's employees on issues of risk management;
- interaction with the internal auditor of the Company on issues of CRMS;
- coordination of introduction and operation of the processes for risk management in structural units of Rosneft and Entities of Rosneft Group.

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<sup>5</sup> The Company's management performs all above functions as a part of its functional responsibilities, in the order and in accordance with the Regulations on structural unit and requirements of local regulatory documents.

## 5.8. INTERNAL CONTROL DEPARTMENT OF ROSNEFT

The scope of competence of the Internal Control Department of Rosneft within RM&ICS includes:

- planning of main areas for development and integration of components of ICS in the processes of the Company management;
- coordination of introduction and operation of ICS in structural units of Rosneft and Entities of Rosneft Group;
- elaboration, introduction, updating of methodology in the area of ICS in the Company;
- identification of shortcomings in existing control procedures, elaboration of measures for their elimination;
- control of quality of elaborated measures for elimination of shortcomings in control procedures when they are individually elaborated by structural units;
- systematization of information about shortcomings in existing control procedures, control over implementing measures for their elimination and formation of reports on internal control;
- organization of training for the Company's employees in the area of internal control;
- providing assistance to the management team in formalization and enhancement of efficiency of business processes by means of elaboration and introduction of requirements to design of control procedures and their composition in business processes, including unification and optimization of control procedures; as well as to any other characteristics of business processes, effecting the state of control environment;
- elaboration and introduction of a tool for regulation and exchange of information about internal control and management of risks of business processes among all structural units of Rosneft and Entities of Rosneft Group, including using information systems.

## 5.9. FINANCIAL CONTROL DEPARTMENT OF ROSNEFT

The scope of competence of the Financial Control Department of Rosneft within RM&ICS includes:

- planning of main areas for development and integration of financial control components in the processes of the Company management;
- methodological support for organization of financial control in the Company;
- organization of system interaction with structural units of Rosneft and Entities of Rosneft Group on issues of financial control, monitoring of the process for financial control by structural units of Rosneft and Entities of Rosneft Group for the purpose to establish common principles and approaches to the Company's activity in the area of financial control;
- control over distribution and compliance with limits of financial liabilities on operating, investment and financial activity of the Company, monitoring of observance of financial discipline;
- continuous monitoring of observing the Company's requirements in the area of contracting in consideration and agreement of contract documents;
- elaboration, updating and introduction of local regulatory documents and order documents in the area of financial control;

- coordination of processes for financial control in structural units of Rosneft and Entities of Rosneft Group.

## 5.10. SECURITY SERVICE OF ROSNEFT

The scope of competence of the Security Service of Rosneft within RM&ICS includes:

- participation in organization and operation of the corporate compliance system for the purpose to minimize risks in the course of activity for coordination of implementing the Company Policy in the area of countering involvement in corrupt activity № P3-11.03.01 P-01 and the Company Policy in the area of countering corporate fraud № P3-11.03.02 P-01;
- elaboration, updating and introduction of local regulatory documents and organizational, order documents of Rosneft in the area of countering corruption and corporate fraud in accordance with competencies;
- participation in organization of control over observance of requirements of the Company's local regulatory documents and implementation of measures, taken by executive bodies of Rosneft in the area of countering involvement in corrupt activity as well as in the area of countering corporate fraud;
- organization of «Hot safety line»;
- conduct of inspections / investigations of unfair / illegal actions on the part of employees and third persons, including negligence, corporate fraud, corrupt actions, abusive practices and various illegal actions, which cause damage to the Company and information received via «Hot safety line».

## 5.11. STRUCTURAL UNITS OF ROSNEFT PERFORMING INDIVIDUAL INTERNAL CONTROL FUNCTIONS ON BUSINESS / FUNCTIONAL BLOCKS

The scope of competence of the structural units of Rosneft, performing individual functions of internal control on business / functional blocks within RM&ICS, includes:

- preparation of information and consolidation of reports within the process for risk management and internal control on business / functional blocks and Entities of Rosneft Group;
- organization of work for introduction of elements of the risk management and internal control system, including coordination of works in elaborating / updating local regulatory documents on business processes of a block with regard to unified methodological risk management approaches;
- analysis of systemic failures and assisting in introduction of control procedures in business / functional blocks;
- providing assistance to the management team in agreement of results of internal audit inspections and elaboration of the plan of measures for elimination of violations and shortcomings, identified based on results of internal audit inspections.

## 5.12. COMPANY'S EMPLOYEES

All employees of the Company, being performers of control procedures within RM&ICS with regard to their competencies:

- bear responsibility for ineffective performance of control procedures and measures for management of risks in accordance with duty instructions and requirements of local regulatory documents, order and other internal documents of the Company;
- provide assistance to the management team and heads of structural units in managing risks, including in issues concerning revelation, assessment, elaboration of measures for elimination, minimization, monitoring and formation of reports on risks;
- ensure timely informing of immediate supervisors about new risks, as well as cases, when performance of control procedures for any reasons became impossible and / or control procedures and measures for risk management need to be changed in connection with changes in internal and external conditions of the Company's activity, including elaboration and submission for consideration to the management team and heads of structural units of proposals on introduction of control procedures and measures for management of risks in relevant areas of activity;
- are obliged to undergo training in the area of risk management and internal control in accordance with the approved training program.

## 5.13. INTERNAL AUDIT SERVICE OF ROSNEFT

The scope of competence of the Internal Audit Service of Rosneft within RM&ICS includes:

- providing assistance to executive bodies of Rosneft and employees of the Company in elaboration and monitoring of implementation of procedures and measures for improvement of the risk management and internal control system, corporate governance of Rosneft by means of assessment of reliability and effectiveness of RM&ICS, corporate governance;
- control over compliance of local regulatory documents in the area of risk management and internal control with unified requirements of the Company Policy «Risk management and internal control system» № P4-01 P-01;
- conduct of inspections on the basis of the action plan of internal audit approved by a competent management body of Rosneft and the Audit Committee of Board of Directors of Rosneft;
- conduct of other inspections, fulfillment of other tasks by order of the Board of Directors of Rosneft (Audit Committee of Board of Directors of Rosneft) and / or executive bodies of Rosneft within the scope of their competence, including on the basis of information, received via the «Hot safety line» of the Company;
- conduct of comprehensive inspections (revisions) of activity carried out by inspected objects, which has the form of documentary and physical verification of legality of performed financial and economic operations, reliability and correctness of their reflection in accounting (financial) reports, implementing subsequent control over financial and economic activity of an object under verification;
- providing consultations to executive bodies of the Company on issues concerning management of risks, internal control and corporate governance (subject to preservation of independence and objectivity of internal audit);

- monitoring of introducing proposals of internal auditors on improvement of the risk management and internal control system, corporate governance, elimination of violations and shortcomings, identified in the course of inspections;
- providing assistance to executive bodies of the Company in investigation of unfair / illegal actions on the part of employees and third persons, including negligence, corporate fraud, corrupt actions, abusive practices and various illegal actions, which cause damage to the Company;
- and other functions, necessary for solution of the Company's internal audit tasks.

The Internal Audit Service of Rosneft carries out assessment of reliability and effectiveness of RM&ICS at least once a year.

#### **5.14. INTERNAL AUDIT COMMISSION OF ROSNEFT**

Control over financial and economic activity of the Company is carried out by the Internal Audit Commission of Rosneft.

The Internal Audit Commission of Rosneft Inspection carries out inspections of Rosneft's activity, including identification and assessment of risks, arising based on results and in the course of financial and economic activities.

The Internal Audit Commission carries out:

- inspection (revision) of financial and economic activities of Rosneft, following which it draws up an opinion, containing the following:
  - ◆ confirmation of reliability of data, contained in the annual report and annual accounting (financial) reports;
  - ◆ information about facts of violation of the following procedures established by the legislation of the Russian Federation: maintenance of business accounting, provision of financial reports and carrying out of financial and economic activities.

The competence of the Internal Audit Commission includes performance of procedures on analysis of:

- organization of activity of Rosneft, composition and activity of its management bodies;
- activity and results of the internal control system of Rosneft;
- peculiarities of accounting in planning and financial analysis in Rosneft;
- operating activity of Rosneft and procedure for accounting of relevant operations;
- main components of financial result and peculiarities of their accounting;
- other aspects of Rosneft's activity (equipment, information safety, tax risks, organization of storage of basic documents, etc.);
- most essential risks in activities carried out by Rosneft, identified by control structural units of Rosneft, internal and external audit, external control supervisory bodies,

as well as formation of conclusions and recommendations based on results of conducted inspections (revisions).



## 6. ROLES OF BUSINESS PROCESS OWNER, CONTROL PROCEDURE OWNER AND RISK OWNER, RISK SUPERVISOR AND RISK EXPERT OF ROSNEFT

Owners of the Company's business processes additionally perform the following functions within the risk management and internal control system:

- ensuring effective operation of RM&ICS within a business process and coordination of activities of performers of control procedures for achieving objectives of a relevant business process;
- analysis and improvement of existing control procedures, including elaboration of measures for introduction of recommendations, received in accordance with the established procedure from the Internal Audit Service and Internal Control Department of Rosneft, external auditor of the Company and other concerned parties;
- continuous improvement and development of approaches, methods and tools for risk management of relevant business processes.

Owners of control procedures ensure elaboration, formalization, introduction, performance and continuous monitoring of effectiveness of control procedures.

Owners of risks within the scope of their competence ensure the following functions on management of risks:

- appointment of risk experts, trained in accordance with the approved programs;
- provision with resources necessary for risk management in accordance with the approved plan of measures for management of risks;
- elaboration of measures for management of risks;
- when necessary, attraction to performance of measures for management of risks of employees of other units (by agreement with heads of the said units);
- as well as other functions, provided for under regulatory documents of the Company, governing relevant business processes.

Within the scope of their competence risk supervisors ensure:

- methodological expertise, elaboration of regulatory documents of the Company on management of risks of a relevant business process, coordination of work for management of interfunctional risks, with regard to assessment of risks, selection of methods to respond to risks, elaboration of the plan of measures for management of risks;
- making of agreed decisions on disputable situations connected with management of interfunctional risks.

Within the scope of their competence risk experts ensure:

- methodological support to owners and supervisors of risks on issues associated with management of risks;
- general coordination of the process for risk management (including organization of meetings, collection and dissemination of information, completion of reports on risks);
- and other functions in accordance with regulatory documents of the Company.

The model of functions and duties represented in this section is described at the level of Rosneft and may be applied to Entities of Rosneft Group with due consideration of their objectives and organizational duties.

## **7. INTERACTION WITH EXTERNAL CONCERNED PARTIES, GOVERNMENT SUPERVISORY BODIES, EXTERNAL AUDITORS, BANKS, INSURANCE COMPANIES, SHAREHOLDERS, INVESTORS AND OTHER CONCERNED PERSONS**

Rosneft provides free access to the information with regard to facilities of risk management and internal control in the Company in accordance with the legislation of the Russian Federation, Charter of Rosneft and internal documents of Rosneft in the information and telecommunication network Internet. The main source for disclosure of information about activity of Rosneft is the official web site of Rosneft [www.rosneft.ru](http://www.rosneft.ru) / [www.rosneft.com](http://www.rosneft.com).

Structural units, performing functions of risk management and internal control in the course of their activity interact with external concerned parties, state supervisory bodies, external auditors, banks, insurance companies, shareholders, investors and other concerned persons in accordance with the procedure provided for under the legislation and relevant local regulatory documents of the Company, on issues falling within the scope of their competencies.

## 8. REGULATORY DOCUMENTS GOVERNING RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

1. Civil Code of the Russian Federation (part one) № 51-FZ dated November 30, 1994.
2. Criminal Code of the Russian Federation № 63-FZ dated June 13, 1996.
3. Code of the Russian Federation on Administrative Violations № 195-FZ dated December 30, 2001.
4. Federal Law № 208-FZ dated December 26, 1995 «On Joint Stock Companies».
5. Federal Law № 273-FZ dated December 25, 2008 «On Countering Corruption».
6. Federal Law № 402 dated December 6, 2011 «On Accounting».
7. Decree of the Government of the Russian Federation № 696 dated September 23, 2002 «On Approval of Federal Rules (Standards) of Audit Activity».
8. Decree of the Government of the Russian Federation №193 dated March 17, 2014 «On Approval of Rules for Implementation by Chief Controllers (Controllers) of Means of Federal Budget (Budget of State Off-Budgetary Fund of the Russian Federation), Chief Administrators (Administrators) of Incomes of Federal Budget (Budget of State Extra-Budgetary Fund of the Russian Federation), Chief Administrators (Administrators) of Sources of Financing of Federal Budget Deficit (Budget of State Extra-Budgetary Fund of the Russian Federation) of Internal Financial Control and Internal Financial Audit and on Introduction of Amendments to Item 1 of Rules for Implementation of Departmental Control in the Area of Purchases to Meet Federal Needs, approved by Decree of the Government of the Russian Federation № 89 dated February 10, 2014».
9. Order of Federal Service for Financial Markets of Russia № 13-62/p3-n dated July 30, 2013 «On Procedure of Securities to Organized Market».
10. Order of Agency for State Property Management (Rosimuschestvo) № 86 dated March 20, 2014 «On Approval of Methodical Recommendations for Organization of Work of Audit Committee of Board of Directors in Joint Stock Company with Participation of the Russian Federation».
11. Order of Agency for State Property Management (Rosimuschestvo) № 249 dated July 4, 2014 «On Approval of Methodical Recommendations for Organization of Internal Audit Work in Joint Stock Companies with Participation of the Russian Federation».
12. Code of Corporate Governance of the Russian Federation (Letter of the Bank of Russia № 06-52/2463 dated April 10, 2014 «On Code of Corporate Governance»).
13. Guidelines for Preparation of Regulations on Risk Management System of the Ministry of Economic Development of the Russian Federation, approved by the Government of the Russian Federation as a part of fulfillment of Assignments of the President of the Russian Federation № Pr-3013 dated December 27, 2014.

14. Regulations of the Bank of Russia № 242-P dated December 16, 2003 «On Organization of Internal Control in Credit Organizations and Banking Groups».
15. Recommendations of the Ministry of Finance of the Russian Federation № P3-11/2013 «Organization and Implementation by Economic Entity of Internal Control of Facts of Economic Activity, Maintenance of Business Accounting and Preparation of Accounting (Financial) Reports» (Letter of the Ministry of Finance of the Russian Federation № 07-04-15/57289 dated December 26, 2013).
16. GOST R 51897-2011 Risk Management. Terms and definitions.
17. GOST R ISO 31000-2010 Risk Management. Management Principles.
18. GOST R ISO 31010-2011 Risk Management. Risk Assessment Methods.
19. Standards of Risk Management of Federation of European Associations of Risk Managers (FERMA).
20. Document (conception) of COSO «Guidelines for Monitoring of Internal Control System» (2009).
21. Guidelines of «COSO» International Committee of Sponsoring Organizations of the Treadway Commission «Internal Control. Integrated Model», 2013.
22. International Framework for Professional Practice of Internal Auditors, adopted by International Institute of Internal Auditors (including International Professional Standards of Internal Audit).
23. UK Bribery Act 2010, approved by Houses of Parliament of UK and Her Majesty Queen Elizabeth II on April 8, 2010 and effective as of July 1, 2011.
24. Foreign Corrupt Practices Act 1977.
25. Charter of Rosneft (new version), approved by the General Meeting of Shareholders of Rosneft on June 27, 2014 (Minutes n/n dated July 2, 2014).
26. Code of Corporate Governance of Rosneft № P3-01 KS-01, version 1.00, approved by decision of the Board of Directors of Rosneft (Minutes №36 dated June 15, 2015).
27. Code of Business and Corporate Ethics of Rosneft № P3-01.06 P-01, version 1.00, approved by decision of the Board of Directors of Rosneft on June 5, 2015 (Minutes № 35 dated June 5, 2015), put into effect by order of Rosneft № 428 dated September 28, 2015.
28. Company Policy «On Internal Audit» № P4-01 P-02, version 1.00, approved by decision of the Board of Directors of Rosneft on January 30, 2015 (Minutes № 20 dated February 2, 2015), put into effect by order of Rosneft №60 dated February 18, 2015.
29. Company Policy «Financial Control» № P2-06.04 P-01, version 1.00, approved by decision of the Board of Directors of Rosneft on December 29, 2014 (Minutes № 17 dated December 29, 2014), put into effect by order of Rosneft № 66 dated February 24, 2015.

30. Company Policy in the area of countering involvement in corrupt activity № P3-11.03.01 P-01 version 2.00, approved by decision of the Board of Directors of Rosneft on December 24, 2014 (Minutes № 17 dated December 29, 2014), put into effect by order of Rosneft № 726 dated December 30, 2014.
31. Company Policy in the area of countering corporate fraud № P3-11.03.02 P-01 version 2.00, approved by decision of the Board of Directors of Rosneft on December 24, 2014 (Minutes № 17 dated December 29, 2014), put into effect by order of Rosneft № 726 dated December 30, 2014.
32. Company Standard «Internal Control System» № P4-01 S-0018, version 1.00, approved by decision of the Management Board of Rosneft on December 31, 2014 (Minutes № Pr-IS-54p dated December 31, 2014), put into effect by order of Rosneft № 100 dated March 10, 2015.
33. Regulations on Board of Directors of Rosneft, no number, version 3.00, approved by the General Meeting of Shareholders of Rosneft dated June 27, 2014 (Minutes dated June 27, 2014, no number).
34. Regulations of Rosneft «On Audit Committee of Board of Directors of Rosneft» № P4-01 R-0020 YUL-001, version 2.00, approved by decision of the Board of Directors of Rosneft on October 6, 2014 (Minutes № 6, dated October 6, 2014).
35. Regulations on Internal Audit Commission of Rosneft, approved by decision of the General Meeting of Shareholders of Rosneft on June 27, 2014 (Minutes dated June 27, 2014, no number).

## 9. REGISTRATION OF AMANEMENTS TO LOCAL REGULATORY DOCUMENT

Table 2  
List of amendments to the Company Policy

VERSION	TYPE AND NAME OF DOCUMENT	NUMBER OF DOCUMENT	DATE OF APPROVAL	EFFECTIVE DATE	REQUISITES OF RD
1	2	3	4	5	6
1.00	Company Policy «Internal control and risk management system»	P4-01 P-01	May 7, 2013	July 22, 2013	Approved by decision of the Board of Directors of Rosneft (Minutes №16 dated May 7, 2013), put into effect by order of Rosneft № 311 dated July 22, 2013.