Risk Management and Internal Control Policy of "Surgutneftegas" PJSC

1. General Provisions.

1.1. This risk management and internal control policy of "Surgutneftegas" PJSC (hereinafter – the Policy) is developed in accordance with the legislation of the Russian Federation taking into account recommendations of the Corporate Governance Code (recommended by letter of the Bank of Russia No. 06-52/2463 dated 10.04.2014).

1.2. The Policy is developed to introduce and maintain the functioning of the efficient risk management and internal control system which is in conformity with the recognized practices and standards applied in the sphere of risk management and internal control as well as with the requirements of the legislation of the Russian Federation applicable to the activity of "Surgutneftegas" PJSC (hereinafter – the Company) and the Company's local regulations.

1.3. The Policy determines unified basic principles which are binding in the Company to organize the risk management and internal control system, as well as its objectives and tasks, participants of the risk management and internal control system and their functions.

1.4. The Policy and the Company's local regulations worked out on the basis thereof shall be implemented as prescribed by the legislation of the Russian Federation and the Company's Charter and in accordance with their requirements.

2. Organization and functioning of the risk management and internal control system.

2.1. Risk management and internal control are the processes which are implemented by the participants of the risk management and internal control division who have appropriate authority and are intended to provide a reasonable assurance that the objectives set by the Company will be achieved.

2.2. The risk management and internal control system is an organized and interrelated combination of:

risk management and internal control processes implemented in the Company;

participants who implement these processes in circumstances of the Company's existing organizational structure;

the Company's current standards, requirements and rules which regulate risk management and internal control activities.

2.3. The risk management and internal control system operates in order to give fair presentation of the Company's current state and prospects as well as integrity and transparency of the Company's statements, soundness and acceptability of the risks taken by the Company.

2.4. The risk management and internal control system aims at:

providing a reasonable assurance that the Company's objectives will be achieved;

ensuring compliance with the legislation of the Russian Federation and the Company's local regulations by the Company and its employees;

providing asset protection and an efficient use of the Company's resources;

ensuring reliable, complete and timely formed, brought to notice/provided information and all kinds of the Company's statements as prescribed by the legislation of the Russian Federation and the Company's local regulations;

providing identification, analysis, assessment and management of the risks related to the Company's activity;

establishing standards and regulations for the procedures of risk management and internal control;

taking timely and proper actions to apply procedures related to risk management and internal control;

assessing the efficiency of the applied procedures of risk management and internal control;

monitoring the reliability and effectiveness of the risk management and internal control system as well as the state of internal control in business processes (lines of activity) exposed to significant risks;

developing and introducing effective procedures of risk management and internal control which provide timely response to emerging risks and are aimed to mitigate risks;

improving the risk management and internal control processes on the basis of up-to-date knowledge and developments in related activities as well as based on the analysis of the existing deficiencies identified in these processes;

providing the processes of making managerial decisions with qualitative information on risks related to the decisions being made;

protecting the Company's and its shareholders' interests, preventing unfair actions of the Company's employees and third parties;

controlling the Company's compliance with the current legislation of the Russian Federation, including preventive anti-corruption laws.

2.5. The Company's risk management and internal control system is created based on the following principles:

continuity – the risk management and internal control system shall operate on a regular basis when the Company carries out its activity and performs managerial functions;

complexity – the risk management and internal control system shall embrace all lines of the Company's activities and all risks arising out of them. The procedures of risk management and internal control shall be implemented in all business processes (lines of activity) of the Company at all management levels;

interaction – concerted actions of the participants of the risk management and internal control system in achieving objectives;

responsibility – all participants of the risk management and internal control system shall bear responsibility for proper risk management and internal control, as well as for designing, documenting, adopting, monitoring and developing the risk management and internal control system within their powers;

allocation of powers and obligations – obligations and powers shall be allocated among the participants of the risk management and internal control system in such a way that a single Company's employee is not obliged to implement the procedures of risk management and internal control along with monitoring and control over their implementation;

integrity of methods – processes in the risk management and internal control system shall be implemented on the basis of approaches and standards which are common for all Company's business and organization units;

appropriateness and optimality – the amount and complexity of the procedures of risk management and internal control implemented in the Company shall be necessary and sufficient to fulfill tasks and achieve the objectives of the functioning risk management and internal control system;

formalization and documenting – the main procedures of risk management and internal control in the Company shall be formalized and the results of these procedures shall be documented;

adaptivity and development – the risk management and internal control system shall undergo improvement on a regular basis to identify all possible risks in the Company's activities and cope with new tasks arising as a result of changes in the Company's internal and external environment;

promptness – information on risk identification and non-implementation of the procedures of risk management and internal control shall be timely provided to the officials who are authorized to make the relevant decisions;

risk orientation – the procedures of risk management and internal control implemented in the Company shall be aimed at significant risks.

When performing their duties the Company's employees must adhere to the stated principles within their terms of reference.

3. The components of the risk management and internal control system:

3.1. Control environment is a combination of the Company's local regulations, principles, rules and procedures of risk management and internal control (including non-formalized ones) which determine a general understanding of risk management, internal control and requirements for internal control in the Company on the whole.

The Company's control environment includes:

analysis and assessment of current business processes (lines of activity) and test of sufficiency of the Company's local regulations and procedures of internal control applied to prevent and avert risks, reduce risks down to the level not exceeding the level of the preferred risk or mitigate the consequences of the realized risks;

development and introduction of new procedures of internal control applied at the various levels of the Company's management and/or modification of the current ones, taking into consideration the identified risks;

formalization of the procedures of risk management and internal control at the various levels of management and in business processes (lines of activity) through recording in the Company's local regulations;

allocation of responsibilities and powers among the employees who ensure the functioning, monitoring, assessment of the organization and improving of the Company's risk management and internal control system.

3.2. Risk assessment represents a process of analyzing the identified risks and their consequences in order to ensure further risk management and includes risks elimination or mitigation, introduction of necessary procedures of risk management and internal control.

Techniques and methods of risks identification applied to form complete and reliable information on risks, their probability and consequences of their occurrence are determined by the Company's local regulations.

Assessment, control and management of certain types of risks shall be carried out by the Company's employees who have appropriate authority, divisions, departments, services of the administrative office of the Company (hereinafter – the Company's Services) and the Company's business units in accordance with the procedures as prescribed by the Company's local regulations.

The Company shall maintain an efficient information exchange between the participants of the risk management and internal control system, which is necessary for prompt and strategic risk management.

3.3. Procedures of risk management and internal control are actions and measures intended to provide necessary arrangements for mitigating risks which influence achievement of the Company's objectives as well as to prevent and identify any divergence, fault, violation and corrupt practices which are developed and established to give a reasonable assurance that the Company's objectives will be achieved and to make a timely and proper response to the arising risks.

The procedures of risk management and internal control shall be implemented at the various levels of the Company's management in accordance with the rules as prescribed by the Company's local regulations.

The process of developing and implementing the procedures of internal control shall be based on the principles of risk orientation as well as principles of appropriateness and optimality.

The procedures of internal control in the Company include:

endorsement – approval of the documents by the employees of the Company's Services and the Company's business units which have appropriate authority;

authorization – obtaining by the Company's employees of the permit to conduct an operation;

verification – test for completeness, accuracy, consistency and correctness of information received from different sources;

arithmetic check – verification of the arithmetic accuracy of calculations, including checksumming in financial, accounting and other documents;

variance analysis – assessment of the achievement of the set objectives and fulfillment of plans based on the indicators of the actual performance compared to the targets, forecasts, data of the previous periods and competitors' performance;

making preventive managerial decisions based on the variance analysis;

practical control over asset protection – restriction of physical access to assets, premises, documents, proper organization of places where assets are kept, conclusion of liability contracts;

inventory procedures – identification of actual assets and comparison of the practically obtained data on the availability of assets in kind to the accounting data, check whether it is fully recorded in liabilities, confirmation of asset measurement and liabilities, identification of property that has partially lost its original quality in order to ensure accuracy of accounting and protection of the Company's assets;

identification and assessment of potential and existing risks which can have an adverse effect on the Company's activity;

protective measures to prevent violations through bringing information on identified significant violations and deficiencies in the Company's activity to notice;

allocation of powers and rotation of duties in different areas of control in order to mitigate risks of faults and corrupt practices;

differentiation of employees' access to certain resources and information, imposing responsibility for non-authorized access and so forth.

The procedures of risk management and internal control shall be established in the Company through:

regulating business processes and formalizing procedures;

attaching responsibility for non-compliance with the procedures of risk management and internal control to the specific participants of the risk management and internal control system in the Company;

setting down requirements in job descriptions and the Company's local regulations which establish interaction between the participants of the Company's risk management and internal control system.

The content of the certain procedures of risk management and internal control shall depend on the management level and functional directions of the procedures and shall be developed by the participants of the risk management and internal control system in accordance with the Company's objectives and as prescribed by the Company's local regulations.

Development and description of the procedures of risk management and internal control shall be performed by the Company based on the analysis of the reasons of risks occurrence and assessment of their consequences.

The results of the implemented procedures of risk management and internal control in the Company shall be duly documented and stored.

The results of the implemented procedures of risk management and internal control enable to make decisions on whether to take corrective or other actions, including those aimed at elimination of identified infringements (deficiencies).

3.4. Information and communication are the systems which enable the management and other employees of the Company to perform their duties to search, collect and exchange as much information as required. Communication represents the distribution of information which is necessary to exercise internal control, make managerial decisions as well as identify and assess risks.

Reliable information shall be brought to notice of the Company's employees and all concerned parties in time and amounts as required.

The Company shall design a proper information system which embraces all spheres of its activities. Information entered in the information system shall be saved in accordance with the procedures adopted in the Company.

The Company shall provide creation of channels for the efficient information exchange among all participants of the risk management and internal control system in order to form a unified understanding of the policy and procedures of risk management and internal control adopted in the Company as well as to ensure their fulfillment.

Information and communication shall create conditions which are necessary to perform managerial functions, make timely and rational decisions, perform duties by the Company's employees.

3.5. Monitoring of the risk management and internal control system shall be performed in order to assess the effectiveness of the risk management and internal control system within a certain period of time, to assess the probability of faults which can have an impact on the Company's achievement of the set objectives, to determine the significance of these faults, to analyze the capability of the risk management and internal control system to ensure the achievement of the set objectives and to develop measures for its improvement.

Monitoring of the risk management and internal control system, including assessment of its reliability and effectiveness, shall be performed by the participants of the risk management and internal control system in accordance with the rules as prescribed by the local regulations as well as by administrative, organizational and other internal documents of the Company.

Monitoring of the risk management and internal control system shall be performed continuously or by way of recurrent assessments.

Monitoring of the risk management and internal control system shall be performed through:

continuing supervision of the implementation and efficiency of the procedures of internal control and measures taken by the Company's management and employees within the terms of their reference to manage risks;

carrying out individual assessment of internal control by the participants of the risk management and internal control system;

carrying out inspections and assessments of reliability and effectiveness of the risk management and internal control system by the Company's subdivision that performs the function of internal audit (hereinafter – the Internal Audit Service);

considering the assessment of the efficient functioning of the risk management and internal control system by the Company's Board of Directors (the Audit Committee of the Company's Board of Directors);

timely bringing information on the identified deficiencies of the risk management and internal control system to notice of the participants of the risk management and internal control system, who hold appropriate positions, depending on the significance of the deficiencies.

4. Participants of the risk management and internal control system and their functions.

4.1. The Company's Board of Directors (the Audit Committee of the Company's Board of Directors) shall be responsible for establishing the risk management and internal control policy of the Company.

Within the framework of the risk management and internal control system the Audit Committee of the Company's Board of Directors shall:

control completeness, accuracy and authenticity of the financial statements of the Company;

control the reliability and effectiveness of the Company's risk management and internal control system;

consider the reports of the Internal Audit Service regarding performed work and proposals of the Internal Audit Service to improve the internal control system;

assess the Internal Audit Service's effectiveness in performing its functions;

perform other functions specified by the Regulations on the Audit Committee of the Company's Board of Directors.

4.2. Director General of the Company shall ensure implementation of the Risk Management and Internal Control Policy of "Surgutneftegas" PJSC approved by the Company's Board of Directors.

Director General of the Company shall organize the efficient functioning of the risk management and internal control system through approving local regulations on the content and actions taken by the Company's business units to implement the procedures of risk management and internal control depending on their lines of activity.

4.3. While exercising internal control, the Company's Auditing Committee shall act in accordance with the terms of reference stipulated by the Company's Charter.

4.4. Within the framework of the risk management and internal control system the Internal Audit Service shall:

carry out independent and fair assessment of the effectiveness of the internal control system regarding efficiency and performance of the Company’s business units, completeness and reliability of financial and management information, compliance of the Company, including all its subdivisions, with the current legislation of the Russian Federation, the Company’s Charter and internal documents when conducting business and financial transactions;

assess the effectiveness of the risk management system;

provide assistance for Director General of the Company and the Company’s employees to develop and monitor implementation of the procedures and measures on improvement of the Company’s risk management and internal control system;

prepare and submit to the Board of Directors and Director General of the Company reports, including, but not limited to, information on significant risks, deficiencies, results of the assessment of the factual state, reliability and effectiveness of the risk management and internal control system;

perform other functions specified by the Regulations on the Internal Audit Service of the Company approved by the Company’s Board of Directors.

4.5. Heads and employees of the Company’s Services and business units shall be responsible for the development, documenting, adopting, monitoring and improvement of the procedures of risk management and internal control in relative spheres of the Company’s activity, in accordance with their job functions.

4.6. Within the framework of the risk management and internal control system heads of the Company’s Services shall:

organize and ensure application of the principles of the risk management and internal control system through the implementation of the procedures of risk management and internal control, including those in relation to the supervised Company’s business units;

organize an efficient control environment of the supervised business processes (lines of activity);

provide regulation of the supervised business processes (lines of activity);

assess the supervised business processes (lines of activity) to decide whether it is necessary to optimize them for higher efficiency and compliance with the changing conditions of the internal and external environment of the Company and organize development of proposals to improve the procedures of internal control;

perform the continuous monitoring of the activity of the supervised Company’s business units through the regular analysis of their operating results in the ordinary course of business, checking the results of separate business operations, regular evaluation and improvement of the organizational, administrative and other documents applicable to the Company’s activity;

allocate powers and responsibilities among the employees, who are subordinated to them, for separate lines of internal control, implementation of the procedures of internal control in accordance with the principle of allocated duties;

provide internal control over timely and proper elimination of the deficiencies identified in the procedures of risk management and internal control as well as in the control environment of the supervised business processes (lines of activity), including the Company’s business units;

take timely and proper actions to implement the procedures of risk management and internal control, including those taken in relation to the supervised business units of the Company;

provide the supervised business units of the Company with quality and timely information which is necessary to make managerial decisions, support the functioning risk management and internal control system and achieve the set objectives.

4.7. Within the framework of the risk management and internal control system and within their powers in managing the Company’s relevant business units the heads of the Company’s business units shall:

ensure application of the principles of the risk management and internal control system;

organize an efficient control environment of the supervised business processes (lines of activity);

provide internal control over timely and proper implementation of the supervised business processes (lines of activity) regulated by the relevant Company’s Services;

allocate powers and responsibilities among the employees, who are subordinated to them, for specific lines of the internal control, implementation of the procedures of internal control in accordance with the principle of allocated duties;

take timely and proper actions to implement the procedures of risk management and internal control and, when necessary, inform the relative Company’s Services on additional procedures of risk management and internal control in relation to the supervised business processes (lines of activity) to be implemented by the Company’s Services;

ensure individual assessment of internal control over the supervised business processes to be carried out;

bring to the notice of the employees of the Company’s business units information on the risks which are within their responsibility, on the role and tasks assigned to them to exercise internal control and inform the management of the Company’s business unit on various situations involving risks;

assess the supervised business processes (lines of activity) to decide whether it is necessary to optimize them for higher efficiency and compliance with the changing conditions of the internal and external environment and, when necessary, provide the relative Company’s Services with proposals to improve the procedures of risk management and internal control;

ensure timely and proper elimination of the deficiencies identified in the procedures of risk management and internal control as well as in the control environment of the supervised business processes (lines of activity).

4.8. The employees of the Company’s Services and Company’s business units who implement the procedures of risk management and internal control in accordance with their duties shall:

implement the procedures of risk management and internal control within the framework of the functioning risk management and internal control system and bear responsibility for efficient implementation of the procedures of risk management and internal control in accordance with their job descriptions and the Company’s local regulations;

inform their direct supervisors on the risks which have been identified when implementing the procedures of internal control;

monitor the implementation of the procedures of risk management and internal control within the terms of their reference specified in their job descriptions and the Company’s local regulations;

carry out individual assessment of the effectiveness of the procedures of risk management and internal control being implemented and take part in improvement of the Company’s risk management and internal control system;

provide their direct supervisors with information about situations when for any reason it has become impossible to implement the procedures of risk management and internal control and (or) it is necessary to change the format of the procedures due to changes in the Company’s internal and (or) external environment;

ensure development and submit proposals for introduction of the procedures of risk management and internal control into relative spheres of activity to be considered by the head of the Company’s business unit.

4.9. All participants of the risk management and internal control system shall bear responsibility for proper organization and implementation of the procedures of risk management and internal control within the terms of their reference stipulated in the Company’s Charter, this Policy and the Company’s local regulations.

5. Interaction within the framework of the risk management and internal control system.

Interaction between the Company’s Services and the Company’s business units within the framework of the risk management and internal control system shall be organized as prescribed by the Company’s local regulations.

The Company cooperates with external regulatory (supervising) bodies, external auditors and other external concerned parties in regard to risk management and internal control as prescribed by the legislation of the Russian Federation applicable to the Company’s activity and the Company’s local regulations.

6. Final Provisions.

6.1. The Policy shall apply to all participants of the risk management and internal control system.

6.2. Any amendments and addenda to the Policy shall be made by the resolution of the Company’s Board of Directors.

6.3. The Policy shall come into effect upon its approval by the Company’s Board of Directors.