

APPROVED BY
the Resolution of the Board of Directors of SLAVNEFT
dd. August 10, 2020
Minutes of Meeting No.3 dd. August 13, 2020

**POLICY ON THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM
OF PUBLIC JOINT-STOCK OIL AND GAS COMPANY SLAVNEFT**

Moscow, 2020

Content

1. GENERAL PROVISIONS	3
2. ICRMS TARGETS AND TASKS	3
3. ICRMS FUNCTIONING PRINCIPLES	4
4. ICRMS LIMITATIONS	4
5. ICRMS PARTICIPANTS. DISTRIBUTION OF FUNCTIONS BETWEEN ICRMS PARTICIPANTS.....	5
6. ICRMS COMPONENTS.....	6
6.1. Control Environment.....	6
6.2. Targeting	6
6.3. Risk Assessment and Risk Management.....	6
6.4. Control Procedures	7
6.5. Information and Communication	8
6.6. Monitoring.....	8

1. GENERAL PROVISIONS

- 1.1. The “Internal Control and Risk Management System” Policy of Public Joint-Stock Oil and Gas Company Slavneft (hereinafter referred to as the Policy) is developed in accordance with the effective Law of the Russian Federation, Articles of Association and in-house regulations of SLAVNEFT, pursuant to the international internal control and risk management standards and recommendations issued by international professional organizations.
- 1.2. The Policy is focused on development and improvement of the internal control and risk management system (hereinafter referred to as ICRMS) of SLAVNEFT (hereinafter referred to as the Company) for enhancing the Company functioning reliability and efficiency, for procuring reasonable assurance that targets will be achieved and tasks will be solved.
- 1.3. The Policy is the Company’s main document on risk management and internal control that defines the targets, tasks, principles of Company’s ICRMS / ICRMS participants functioning.
- 1.4. The personnel of the Company and Slavneft’s subsidiaries shall follow the provisions of this Policy.

2. ICRMS TARGETS AND TASKS

- 2.1. ICRMS is a complex of organizational measures, processes, organizational structure, Company’s in-house documents, risk management / internal control procedures and methods, other actions taken by ICRMS participants at all management levels and within all types of Company’s business.
- 2.2. Company’s ICRMS targets are as follows:
 - procure reasonable assurance in achievement of the tasks specified below:
 - strategic and operational goals, including efficiency and performance of the Company’s financial and business activity, safety of Company’s assets;
 - reliability and promptness of the Company’s accounting (financial) and other reporting;
 - adherence to requirements of the Russian Federation Law and Company’s in-house documents;
 - enhance the efficiency of managerial decisions by analyzing the related risks;
 - ensure proper control over the Company’s financial and business activity.
- 2.3. ICRMS main tasks are described below:
 - identify, analyze and assess Company’s risks, including for planning the Company’s activity and making the managerial decisions, manage these risks effectively;
 - create internal control and risk management mechanisms aimed at effective functioning of Company’s business processes through mitigation of their risks;
 - ensure establishment of an organizational structure, which shall be aligned with Company’s needs and which shall be based on the principle of duties distribution between ICRMS participants;
 - ensure safety of Company’s assets and efficient use of Company’s resources;
 - prevent corruption and counteract against it.

3. ICRMS FUNCTIONING PRINCIPLES

Organization and functioning of Company's ICRMS are based on the following principles:

- **Principle of integration.** ICRMS constitutes a part of Company's corporate governance, which is integrated with the planning and management systems being effective in the Company.
- **Principle of reasonable assurance.** ICRMS is aimed at procuring reasonable (high), but not absolute assurance in achievement of Company's targets and solving of Company's tasks.
- **Principle of integrity.** Company's ICRMS shall be applicable to all types of Company's activities, business processes and operations, shall be used at all management levels.
- **Principle of optimality,** reasonable approach to formalization of the control procedures and documenting of the internal control system. The Company is striving for formalization of the control procedures and documenting of the work in such a manner, so that the scope of documenting and formalization will be necessary and sufficient for ICRMS effective functioning.
- **Principle of economic feasibility.** Resources allocated for implementation of the ICRMS actions shall be substantiated by the economic benefit of these actions.
- **Principle of prompt response.** Company's ICRMS shall transfer promptly the information to authorized bodies and officials.
- **Principle of duties distribution.** Duties and powers shall be distributed between ICRMS participants for avoiding or mitigating the risk of mistake and / or risk of corporate fraud. One and the same person (structural unit) shall not concurrently exercise the functions of authorizing, making, recording the transactions with specific assets and shall not concurrently control fulfillment of such functions.
- **Principle of responsibility.** ICRMS participants shall be responsible for identification, assessment, analysis and monitoring of the risks within the scope of their activity, for development and introduction of the required internal control and risk management actions.
- **Principle of continuous functioning.** ICRMS shall continuously operate, while the Company performs its financial and business activity, exercises its managerial functions.

4. ICRMS LIMITATIONS

ICRMS is focused on procuring reasonable assurance in achievement of the Company's targets. The Company admits availability of ICRMS certain limitations, which may affect achievement of the Company's targets due to impact of the following factors:

- subjectivity of judgements formed due to:
 - ♦ improper selection of the control activities and measures aimed at risk management;
 - ♦ improper interpretation of the requirements defined in the Law and / or in-house regulations;
- lack of the sufficient statistical data for risk assessment with the degree of accuracy required by the Company;

- collusion of two or more persons presupposing deliberate actions of the Company's employees in breach of the control activities;
- errors of employees due to negligence and / or insufficient level of competence.

There are hardly manageable risks when the Company cannot influence the risk sources and factors, and therefore cannot influence the probability and consequences of risk occurrence.

5. ICRMS PARTICIPANTS. DISTRIBUTION OF FUNCTIONS BETWEEN ICRMS PARTICIPANTS

Company's ICRMS is represented by Company's ICRMS participants; roles of these participants are defined depending on their involvement in development, introduction and monitoring of the ICRMS efficiency.

Table 1
Distribution of functions between ICRMS participants

STRATEGIC MANAGEMENT LEVEL	Company's Board of Directors and Audit Committee of the Board of Directors define the principles of Company's ICRMS functioning, review the issues of ICRMS organization, functioning and performance, influence understanding of the ICRMS value by Company's employees.
OPERATIONAL MANAGEMENT LEVEL	The General Director, his / her deputies, other managing officials, who report directly to the Company's General Director (hereinafter referred to as the top-managers), create and support the control environment, which facilitates the ICRMS effective performance, ensure introduction and implementation of the ICRMS enhancement programs.
	Company's Security Department shall coordinate the ICRMS processes related to counteraction against the corporate fraud and corruption.
	Company's employees shall continuously participate in identification and assessment of the risks, development and implementation of the risk management actions, development and implementation of the control activities, monitoring, efficiency evaluation and implementation of the ICRMS enhancement programs.
INDEPENDENT MONITORING AND ASSESSMENT OF THE ICRMS EFFICIENCY	Company's Audit Commission supervises the Company's financial and business operations.
	The Internal Audit Service shall carry out the independent assessment of Company's ICRMS reliability and efficiency.

ICRMS participants of each level fulfill their functions through exercising their rights and performing their duties within the scope of competence stipulated in the applicable legislation, Articles of Association and in-house regulations, in accordance with organizational, directive documents, job descriptions and provisions of the structural units.

6. ICRMS COMPONENTS

Company's ICRMS represents the complex of the following interrelated components:

6.1. Control Environment

- 6.1.1. The Control Environment is a complex of Company's in-house documents, rules and procedures (including unformalized) and methods of their fulfillment, which shall be created and supported by the Company for ensuring effective organization and functioning of Company's ICRMS.
- 6.1.2. The Control Environment includes relation to ICRMS, awareness and actions thereon of ICRMS participants and Company's employees, understanding of such system value for Company's operations.
- 6.1.3. The Control Environment influences the consciousness of Company's employees with respect to control, is a basis for creation of the effective ICRMS, which shall ensure achievement of Company's goals.
- 6.1.4. The main factors, which have an impact on establishing the Control Environment, are as follows:
 - fairness, competence, commitment to ethic values, other personal qualities of Company's employees;
 - style of management, which supports fulfillment of the control procedures;
 - system of powers delegation, distribution of duties between employees, training of employees;
 - Company's organization structure, HR management policies and procedures.

6.2. Targeting

- 6.2.1. Company's targeting is a prerequisite for identification and assessment of the risks, further determination of the control activities. Targets shall be aligned with strategic areas of the Company's development and shall facilitate their implementation.
- 6.2.2. Company's targets shall be the basis for introduction and implementation of the risk assessment approaches, further determination of the control activities.
- 6.2.3. When defining the targets, Company's top-managers shall consider the following issues:
 - compliance of the established goals and tasks with strategic areas of Company's development;
 - determination of the acceptable risk level;
 - compliance of the established goals with the Law, Articles of Association and Company's in-house documents;
 - definition of the goals with application of the indicators, which are relevant, specific, measurable, achievable;
 - distribution of goals between SLAVNEFT and Entities of the Group.

6.3. Risk Assessment and Risk Management

- 6.3.1. Top-managers shall be responsible for identification of potential events, which have an internal or external sources of occurrence in relation to the Company and which have an impact on achievement of Company's goals. Internal and external events are defined

taking into account their breakdown into risks and opportunities. The top-managers shall be responsible for development of the actions on response to the events, which represent the risks, in order to prevent or mitigate the probability of their occurrence and / or reduce the impact of these events to an applicable level (risk appetite). The top-managers shall be responsible for searching for and using the opportunities, which may have a positive impact on achievement of Company's goals. Risks and opportunities shall be considered by the top-managers in the course of targeting.

The top-managers shall be responsible for identification of the risks on a regular basis and for including the respective information into the risk reporting. The top-managers shall be responsible for risk identification completeness.

6.3.2. ICRMS participants assess and manage the risks in accordance with the procedures set forth by Company's in-house documents. The Company shall support the effective exchange of information, which is required for risk management, between ICRMS participants.

6.3.3. The Company uses the following types of risk response:

- risk mitigation – implementation of the actions focused on change (mitigation) of the risk probability and / or risk consequences;
- risk transfer – risk sharing with other party, insurance;
- risk acceptance – acceptance of the identified risk without fulfillment of any other actions for risk mitigation except for monitoring of this risk and external environment;
- risk avoidance – cancellation of the risk-related activity.

Upon assessment of the identified risks, the top-managers shall be responsible for selection of the risk response method, development and implementation of the risk management actions. The information about risk response methods and risk management actions shall also be shown in the risk reporting.

6.4. Control Procedures

6.4.1. Control Procedures are actions focused on taking the actions required for mitigation of the risks, which affect achievement of Company's goals, and procedures, which are developed, introduced and implemented in accordance with Company's goals and tasks. The Control Procedures are envisaged by Company's in-house documents; they shall permanently be updated for reflecting the changes in Company's activity and requirements of the applicable Law.

6.4.2. The Company uses the following types of Control Procedures:

- *authorization* – receipt of the permission to perform operations, confirmation or approval of the documents / operations;
- *approval / distribution of duties and divisions of rights* – approval of the documents by employees of different departments and management levels, who are granted with respective powers;
- *reconciliation* – verification of the completeness, accuracy, consistency and correctness of the information received from different sources, including control over no discrepancies between the accounting items, accounting systems, accounting data of the Company and its counterparts;

- *arithmetic check* – verification of the arithmetic correctness of calculations, including estimation of the control total, in financial, accounting and other documents;
 - *analysis of variances* – assessment of the target achievement / plan fulfillment degree based on comparison of actual performance indicators with planned indicators, forecasts, data of the previous periods, performance results of the competitors;
 - *physical control over safety of assets, including stock control* – identification and description of actually available assets and liabilities, qualitative properties thereof, restricted physical access to assets, premises, documents, properly equipped places for storage of the assets, signing of the financial liability contracts for ensuring the accounting reliability and safety of Company's assets;
 - *information control* (general and specialized control procedures for information technologies) – control over access, data integrity, updating of the information systems.
- 6.4.3. The Company is striving for maximum automation of the control procedures in order to mitigate the risk of errors in case of manual data input and processing.
- 6.4.4. The content of specific control procedures shall be defined as per Company's in-house documents.
- 6.4.5. Duties for development, documenting, introduction, implementation, monitoring and improvement of the internal control procedures shall be set forth in Company's in-house documents and employees' job descriptions.

6.5. Information and Communication

- 6.5.1. Information and communications create the conditions necessary for implementation of the managerial functions, making of the prompt and substantiated decisions.
- 6.5.2. Information exchange in ICRMS is performed between all participants with due consideration of vertical and horizontal links, is aimed to ensure completeness, promptness, reliability and accuracy of this information, its proper addressing, its best form and content, adherence to the data confidentiality requirements.
- 6.5.3. Information exchange and storage rules, including determination of requirements to its content / form, shall be defined in accordance with requirements of the Russian Federation Law and Company's in-house documents.
- 6.5.4. The Company shall ensure availability of the complete, prompt and relevant information about events and conditions, which may have an impact on decisions taken.
- 6.5.5. The Company has established the system of information disclosure and communication with shareholders, regulatory bodies, employees, vendors.
- 6.5.6. The Company has the Hot Line for accepting applications about any facts, which require interference and managerial decisions, including those related to counteraction against corruption and fraud.

6.6. Monitoring

- 6.6.1. Monitoring is a continuous process aimed at assessment of Company's ICRMS organization and functioning in general, at assessment of each control procedure formalization and fulfillment individually.
- 6.6.2. Company's ICRMS is monitored for:

- assessing the ICRMS operation quality during the specific period;
- determining the ICRMS ability to ensure fulfillment of the established tasks;
- determining the probability of errors, which affect achievement of Company's targets; identifying materiality of these errors;
- developing the actions on Company's ICRMS improvement.

6.6.3. ICRMS is monitored by:

- continuous supervision over functioning of the control activities / fulfillment of the risk management measures by heads of Company's structural units and Company's employees within the scope of relative competence and area of responsibility;
- internal control self-assessment by ICRMS participants;
- internal audit performed by the Company's internal auditor, assessment of reliability and efficiency of the internal control and risk management system;
- external independent assessment performed by third parties in line with the established procedure.

6.6.4. ICRMS participants shall define the criteria for ICRMS efficiency assessment.

6.6.5. Results of ICRMS reliability and efficiency assessment are used for preparing the section of the Company's Annual Report, which describes the internal control / risk management issues. The internal audit report on reliability and efficiency of the internal control and risk management system annually constitutes a part of the materials submitted for the Annual General Meeting of Company's Shareholders.