

APPROVED

**by Resolution of the Board of Directors
of Rosneft**

Minutes No. 16 dated May 07, 2013

In effect from July 22, 2013

by Order dated July 22, 2013 No. 311

COMPANY POLICY

INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT

NO. П4-01 П-01

REVISION1.00

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INTRODUCTORY PROVISIONS

INTRODUCTION

This **COMPANY POLICY ON INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT** (hereinafter, the **POLICY**) sets forth the goals, objectives and principles of functioning of the Company internal control and enterprise risk management, as well as segregation of duties and authorities among the internal control and enterprise risk management participants inside the system.

This **POLICY** is developed in accordance with the Civil Code of the Russian Federation, the Federal Law "On Joint-Stock Companies", other statutes and regulations of the Russian Federation, the Code of Corporate Behavior of the Open Joint-Stock Company Oil Company Rosneft, and the Charter of Rosneft, as well as the federal rules (standards) of auditing activity, and also factoring in the recommendations of international professional organizations in the areas of internal control and enterprise risk management, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

GOALS

This **POLICY** is developed with the goal of implementing and maintaining an effective internal control and enterprise risk management, sufficient in terms of the Company business scale and complexity, conforming to the best international practices and facilitating the accomplishment of the Company business goals.

OBJECTIVES

The objectives of this **POLICY** are to:

- define the goals, objectives, uniform principles and components of the Company internal control and enterprise risk management;
- distribute authorities among the internal control and enterprise risk management participants;
- regulate the procedures for interaction among the internal control and enterprise risk management participants.

SCOPE OF APPLICATION

This **POLICY** shall be binding upon the employees of:

- all structural units of Rosneft;
- all Rosneft subsidiaries and subsidiaries of Rosneft subsidiaries.

This **POLICY** shall be by nature of non-binding guidance for the employees of Rosneft affiliates.

The requirements of this **POLICY** shall become binding upon Rosneft subsidiaries, the subsidiaries of Rosneft subsidiaries, and Rosneft affiliates once enacted in such entities in accordance with the entity Charter and in the manner applicable at such entity.

Any organizational, instructional or local normative documents shall not be contrary to this **POLICY**.

EFFECTIVE PERIOD AND AMENDMENT PROVISIONS

This **POLICY** shall be a local normative document of perpetual effect.

This **POLICY** shall be approved in Rosneft by decision of Rosneft Board of Directors, and shall be brought in effect in Rosneft by an order of Rosneft.

This **POLICY** shall be deemed to have lost effect in Rosneft pursuant to a decision of Rosneft Board of Directors.

Changes to this **POLICY** shall be made by resolution of Rosneft Board of Directors and shall be brought in effect by an order of Rosneft.

Changes to this **POLICY** may be initiated by any of the following: Rosneft Board of Directors, Rosneft Board Audit Committee, Rosneft PRESIDENT, Rosneft Management Board, Rosneft management and Rosneft Internal Audit Department, Rosneft Risk Department.

Changes to this **POLICY** shall be made in cases of: changes to the laws of the Russian Federation, to the organizational structure or authorities of the executives, the corporate system of internal communications, business processes implementing the procedure for communicating information to employees, etc.

The responsibility for keeping this **POLICY** current in Rosneft shall rest with the Director, Internal Audit Department of Rosneft.

Control over the compliance with the requirements of this **POLICY** shall be exercised by Rosneft PRESIDENT.

1. TERMS AND DEFINITIONS

BUSINESS PROCESS – an aggregate of inter-related or interacting activities that transform inputs into outputs.

BUSINESS PROCESS OWNER – an officer who, by nature of his duties, is responsible for the implementation of a business process, its improvement and its outcomes.

CONTROL PROCEDURE OWNER – an officer who, by nature of his duties, is responsible for assuring the development and for proper performance of control procedures.

RISK OWNER – an officer (a top manager) who, by nature of his duties, is responsible for the management of a given risk, taking into account the risk management decision-making process as it exists in the Company.

INTERNAL CONTROL – a process performed by the internal control and enterprise risk management participants, aimed to secure reasonable assurance that the following Company goals are accomplished:

- effectiveness of financial and business operations;
- reliability of financial and non-financial reports;
- compliance with the applicable laws and local normative documents.

INTERNAL AUDIT – a type of activity which amounts to conducting independent and unbiased reviews, and issuance of recommendations, with the aim of assisting the Company governance bodies in improving efficiency and effectiveness of management processes, risk management and control processes, as well as identifying any irregularities in the activities of the Company and its subsidiaries (affiliate) and following up on their elimination.

INVESTMENT PROJECT – a set of activities aimed to grow production, improve efficiency or comply with the requirements of safety or environment protection standards, in relation to properties owned, or intended to be created/acquired, by the Company, and requiring financial, labor or other investment on the part of the Company over a specified period of time.

CONTROL PROCEDURE IMPLEMENTING PARTIES – all IC&ERM participants shall be control procedure implementing parties.

CONTROL PROCEDURES – activities, actions, automatic operations of information systems or a combination of the above, designed to provide reasonable assurance that risks are responded to in an effective, timely and coordinated manner at different levels of management and allow to mitigate the probability and/or impact of a risk or several risks simultaneously to an acceptable level.

LOCAL NORMATIVE DOCUMENT – a type of an internal official document issued as a code of unambiguously perceived standards (rules) of perpetual effect which regulates certain aspects of the Company activities and is binding upon those employees to whom such document applies.

RISK MANAGEMENT ACTIVITIES – activities undertaken by the Company in relation to identified risks within the framework of the selected management strategy, which allow to make the risk compliant with the Company defined level of risk appetite.

RISK – a conjunction of probability of an event and its consequences, threat of negative impact a casual event may have on the accomplishment of the Company goals.

RISK APPETITE – a presentation of the amount of loss that would not have a critical negative impact on Rosneft operations and that is described through quantitative and qualitative indicators.

INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT (IC&ERM) – is an aggregate of risk management and internal control processes performed by IC&ERM participants on the basis of the existing organizational structure, internal policies and regulations, internal control and risk management procedures and methods used in the Company across all levels of management and all functional areas of activity.

ENTERPRISE RISK MANAGEMENT (ERM) – an aggregate of risk management processes performed on the basis of the existing organizational structure, internal policies and regulations, internal control and risk management procedures and methods used in the Company across all levels of management and all functional areas of activity, with the goal of making Company risks compliant with the defined level of risk appetite.

CONTROL TOOLS – methods and procedures aimed to verify and assess performance, segregate duties and rights of access, grant authorizations (agreement/approval of documents/transactions), control security of assets, reconcile data, assess business process efficiency, and which provide reasonable assurance that the Company goals are accomplished.

ROSNEFT INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT PARTICIPANTS – Rosneft Board of Directors, Rosneft Board Audit Committee, Rosneft Board Risk Committee, Rosneft PRESIDENT, Rosneft Management Board, Rosneft Internal Audit Commission, Rosneft management, Rosneft structural unit leaders and employees responsible for the setting up and the functioning of the internal control system, Rosneft Internal Audit Department, Internal Control Department, Contracting Control and Compliance Department, Risk Department.

COMPANY INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT PARTICIPANTS – the participants of the Rosneft internal control and enterprise risk management, as well as boards of directors (supervisory boards), internal audit commissions and executive bodies, management and employees of Rosneft subsidiaries, responsible for the setting up and the functioning of the internal control system, the internal auditor of a Rosneft subsidiaries (in accordance with the constitutional documents and organizational structure).

RISK MANAGEMENT – a continuous process performed by the Company Board of Directors, Board Committees, executive bodies, top management and employees, encompassing all Company activities and intended to identify risks, assess identified risks and develop actions to mitigate them.

FINANCIAL AND BUSINESS OPERATIONS – an aggregate of all financial and business operations.

2. DESIGNATIONS AND ABBREVIATIONS

SUBSIDIARY INTERNAL AUDITOR – control and review units, internal audit units, internal auditors of Rosneft subsidiaries.

IAD – Rosneft Internal Audit Department.

ROSNEFT SUBSIDIARY (SUB) – an entity in relation to which Rosneft can, by virtue of a majority participation stake in its charter capital, or in accordance with a contract in effect between them, or otherwise, influence the decisions made by such entity.

COMPANY – a group of legal entities of different forms of legal existence, including OJSC OC Rosneft, in relation to which the latter is the parent company or the majority shareholder.

LND – local normative documents.

ROSNEFT MANAGEMENT – Rosneft first vice-presidents, Rosneft vice-presidents, executives of Rosneft vice-president standing, Rosneft chief financial officer, Rosneft structural unit leaders directly reporting to Rosneft PRESIDENT.

COMPANY MANAGEMENT – Rosneft management, as well as general directors of Rosneft subsidiaries, deputy general directors of Rosneft subsidiaries and structural unit leaders of Rosneft subsidiaries reporting directly to general directors of Rosneft subsidiaries.

ROSNEFT GOVERNANCE BODIES – Rosneft General Shareholders' Meeting, Rosneft Board of Directors, Rosneft Management Board, Rosneft PRESIDENT.

IC&ERM – the internal control and enterprise risk management.

STRUCTURAL UNIT OF ROSNEFT SUBSIDIARY (SUB SU) – a unit (department, division, function, section, etc.) of a Rosneft subsidiary with functions, objectives and responsibilities of its own, operating in accordance with its terms of reference defined in the Regulations of that structural unit.

STRUCTURAL UNIT (ROSNEFT SU) – a unit (department, division, function, section, etc.) of Rosneft with functions, objectives and responsibilities of its own, operating in accordance with its terms of reference defined in the Regulations of that structural unit.

FINANCE AND ECONOMIC BLOCK STRUCTURAL UNITS – Rosneft Financial Control Department, Rosneft Economics and Business Planning Department, Rosneft Structured Finance and Debt Department, Rosneft Group Accounting Department, Rosneft Tax Department.

TOP MANAGEMENT – a person or a group of employees responsible for specific areas of Company activity and for the top-level management of the Company.

3. INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT FUNCTIONING

3.1. INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT GOALS

The setting up and efficient functioning of the internal control and enterprise risk management is aimed to provide reasonable assurance of accomplishment of the Company goals which may be classified into four main categories:

- strategic goals facilitating fulfillment of the Company mission;
- operating goals pertaining to matters of the Company financial and business performance, and assurance of asset security;
- goals in the area of Company compliance with the applicable legal requirements and those of the local normative documents, including industrial, economic, environmental, information and personal safety requirements;
- goals in the area of timely issuance of reliable financial and non-financial reports, including assurance of reporting accuracy.

Efficient IC&ERM functioning allows to ensure adequate control over the Company financial and business operations.

3.2. INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT OBJECTIVES

The IC&ERM objectives shall be to:

- set up control mechanisms supporting the functioning of the Company business process and implementation of its investment projects;
- standardize and document key procedures in the internal control and risk management area;
- assure that an optimal organizational structure is built in the Company that would commensurate to its requirements, based on the principle of segregation of duties among IC&ERM participants;
- assure security of Company assets and efficient use of Company resources;
- assure effective functioning of the system of control procedures¹ aimed to mitigate the risks of corruption and fraud in the Company;
- protect the interests of the Company shareholders, screen counterparties and analyze their anti-corruption procedures, prevent and eliminate conflicts of interest;
- create an environment facilitating timely preparation and issuance of reliable reports for internal and external audiences, as well as other information to be disclosed in accordance with the applicable law.
- assure that the Company complies with the applicable law and LND.

¹ In accordance with the UK Bribery Act 2010, the Russian law in this area (the Criminal Code of the Russian Federation, The Code of Administrative Offenses, Federal Law dated Dec. 25, 2008 No. 273-FZ "On countering corruption") and local normative documents.

3.3. INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT FUNCTIONING PRINCIPLES

The following principles shall underlie the functioning of IC&ERM:

- The continuity and integration principle. IC&ERM shall function on a continuous basis in the course of the Company's financial and business operations and during the exercise of managerial functions.
- The full responsibility principle. All IC&ERM participants shall be responsible for the identification, assessment, analysis and continuous monitoring of risks in their respective areas of activity, for the development and implementation of necessary risk management actions and control tools, their application within their scope of authority, continuous monitoring of risk management actions and control tools effectiveness.
- The principle of reasonable approach to control procedures formalization and IC&ERM documenting. The Company endeavors to formalize its key control procedures and document the IC&ERM activities so that the scope of such documenting and formalization were necessary and sufficient for the IC&ERM effective functioning and could be kept current by the Company.
- The methodological unity principle. Internal control (development, implementation and performance monitoring of control procedures) and risk management (identification, analysis, assessment and monitoring of risks, development and performance monitoring of risk management activities) shall be based on the approaches and standards that uniformly apply across the Company.
- The segregation of duties principle. The duties and authorities are segregated among IC&ERM participants with the purpose of eliminating or mitigating the risk of error and/or fraud by preventing assignment of the functions of development, approval, application, monitoring and assessment of operations to one and the same IC&ERM participant.
- The risk-based approach principle. The maximum effectiveness of internal controls is achieved through prioritization of IC&ERM improvement efforts depending on the criticality of the risks inherent in this or that area of Company activities.
- The optimality principle, underlying the implementation cost and performance benefit analysis of the control procedures and/or risk management activities, including whether the IC&ERM complexity level is commensurate with the complexity and importance of the object controlled. The scope and complexity of internal control procedures and risk management activities must be necessary and sufficient for the accomplishment of IC&ERM objectives and fulfillment of the goals of its functioning.
- The IC&ERM adaptability and development principle, whereby the management should create an environment for IC&ERM continuous development, taking into account the need to handle new objectives that arise following changes in the Company internal and external business environment.
- The reasonable assurance principle. Any risk management activities are deemed to be effective if they allow to bring a risk down to an acceptable level. A control procedure development, performance and assessment process must take into consideration that a control procedure is deemed to be effective only if the control goals have been achieved. In this event all activities taken in aggregate provide reasonable, but not absolute, assurance that the IC&ERM goals have been accomplished.

The Company employees shall take guidance in these principles in their performance of their duties within their respective terms of reference.

The Company IC&ERM is a multi-tier structure in which:

- Rosneft Board of Directors, Rosneft Board Audit Committee, Rosneft Board Risk Committee determine the IC&ERM functioning principles;
- Rosneft President, Rosneft Management Board, Rosneft management assure IC&ERM setting up, implementation and continuous performance monitoring;
- Rosneft Internal Audit Commission, the Risk Department, Rosneft structural unit leader and employees are responsible for the implementation of control procedures and risk management activities, and for the monitoring of their effectiveness;
- independent assessment of effectiveness of control procedures, risk management activities and IC&ERM as a whole are within the IAD area of responsibility.

3.4. INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT LIMITATIONS

IC&ERM is aimed to provide reasonable assurance in the accomplishment of the Company goals. The Company will tolerate a compromise on the IC&ERM effectiveness caused by the following limitations:

- subjectivity of judgment:
 - ♦ making wrong decisions as to the choice of control tools and risk management activities;
 - ♦ wrong interpretation of any requirements of the law and/or local normative documents;
- insufficient statistical information to enable risk assessment with the level of accuracy required by the Company;
- collusion of two or more persons which implies intentional breach of control tools;
- employee errors caused by negligence and/or insufficient level of competence.

There exist hardly manageable risks where the Company has no influence over the risk sources and factors and, consequently, cannot control risk probability and consequences.

4. INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT COMPONENTS

The Company endeavors to systemize its activities in the internal control area with the purposes of simplifying IC&ERM monitoring and improvement, keeping track of IC&ERM changes in the context of changing external business environment and the Company internal needs. The Company internal control and enterprise risk management is an aggregate of interrelated components with a structure compliant with the general accepted COSO IC-IF methodology². The internal control and enterprise risk management consists of eight interrelated components:

- control environment;
- goal setting;
- identification of potential events;
- assessment of risks;
- risk response;
- control tools;
- information and communication;
- monitoring

4.1. CONTROL ENVIRONMENT

The control environment includes the owner representatives' and management's attitude, awareness and actions in relation to the audited party's internal control and enterprise risk management, as well as an understanding of that system's significance for the audited party's operations. The audited party's control environment affects the employees' control awareness. It provides the basis for an effective internal control system that ensures adherence to discipline and order. The key elements affecting the setting up of the control environment are as follows:

- Management style:
 - ◆ the management style of Rosneft governance bodies and Company management forms a proper understanding and perception of IC&ERM by the Company employees;
 - ◆ the principles and standards of business which shape up the Company management style correspond to the Company mission and corporate values, and aim at the accomplishment of the Company strategic goals and implementation of its development strategy.
- Business strategy and goals:
 - ◆ in the course of building and improvement, IC&ERM is continuously analyzed to achieve the objectives of its existence and, as the consequence, for the implementation of the Company strategic plans;
 - ◆ individual goals of employees and Rosneft SU and Subsidiary SU, taken separately, must not be contrary to the Company strategy and goals.

² COSO Internal Control – Integrated Framework (COSO IC-IF) – an internal control guidance document published in 1992. COSO (The Committee of Sponsoring Organizations of the Treadway Commission) was established in 1985. Treadway Commission is an independent private organization that studies factors leading to issuance of fraudulent reports and issues recommendations to companies, independent auditors and other institutions.

- Organizational structure:
 - ♦ the Company organizational structure assures effective functioning of the Company IC&ERM through segregation of duties and responsibilities for implementation of control procedures among the Company employees in a way that excludes any duplication and combination of functions which may potentially result in an internal conflict of interests;
 - ♦ the existing Company organizational structure meets the principle of internal audit independence and objectiveness.
- Culture and ethical values:
 - ♦ the Company has approved and effective LND that reflect corporate values, ethical principles and determine the behavior models expected from the Company employees that affect IC&ERM functioning.
- Employee competency and development:
 - ♦ the Company has defined requirements to employee qualifications and experience necessary to perform their duties, allowing to effectively implement the existing control procedures and risk management activities, identify any new risks and implement new control procedures and risk management activities in a timely manner;
 - ♦ by way of implementation of the employee continuous professional development and enhancement programs, necessary for the accomplishment of Company goals, employees are appraised on a regular basis and requirements to employees are revised regularly in the context of changing Company needs.

4.2. GOAL SETTING

It makes sense to set goals for the internal control and enterprise risk management which would launch the risk management cycle and create an environment for the identification and assessment of risks, selection of a risk response strategy and development of specific risk management activities, as well as shape up the internal control system.

The Company goals determined at the strategic level are decomposed down to the level of goals in relation to business processes, project activities and those of individual Company units and employees.

The Company management performs an organized goal selection and formulation process which implies that the goals set must be understandable, measurable, must fit with the Company mission and the approved level of risk appetite, and that there must be definite time frames and persons assigned responsible for the control of their accomplishment.

4.3. IDENTIFICATION OF POTENTIAL EVENTS

Identification of potential events means determination of events that originate from an internal or external sources vis-à-vis the Company and affect the accomplishment of the Company goals. Internal and external events are determined taking into account their classification into risks and opportunities. Company management assesses and develops response actions in relation to those events which are risks, with the purpose of preventing or mitigating the probability of their

occurrence and/or to minimize the consequences of such events to an acceptable level. Company management searches for and acts upon any opportunities presented by events capable of positively affecting the accomplishment of the Company goals. Risks and opportunities are taken into account by the Management in the process of setting goals and strategies.

4.4. ASSESSMENT OF RISKS

Risk assessment is a process of analyzing risks and their consequences to assure subsequent risk management, including their elimination and implementation of necessary control procedures. Formalized risk identification and assessment control procedures allow to obtain comparable risk assessment results, so that risk management and necessary control procedures implementation efforts could be prioritized.

4.5. RISK RESPONSE

Based on the identified risks assessment results, Company Management selects a strategy for managing a particular risk, develops and implements risk management activities. When selecting a risk management strategy and specific risk management activities the Company follows the principle of optimality and conformity to the approved level of risk appetite.

4.6. CONTROL TOOLS

Control tools include the following rules and procedures:

- Methods and procedures:
 - ♦ Methods and procedures are developed in accordance with the Company strategy, operating goals and objectives, are communicated to the personnel and are consistently applied in the Company activities;
 - ♦ Methods and procedures are regularly revised and updated to reflect any changes in the activities of structural units across the Company as a whole, and in the requirements of the applicable law. To achieve this, procedures have been implemented to monitor changes in the legal and regulatory requirements.
- Control procedures. The control procedure development and implementation process is underlain by: the risk-based approach principle and the adaptability principle. Control procedures are performed in accordance with LND and are aimed at the accomplishment of IC&ERM goals. The following types of control procedures are used by the Company:
 - ♦ segregation of duties and access rights. Control procedures are implemented through formulation of requirements in job descriptions and LND that describe the interaction among Company IC&ERM participants, prevent duplication of functions, or combination of transaction initiation, execution and control functions in one and the same employee. This method also provides for restriction of access rights to information that is deemed to be confidential, including insider information, depending on the job position;
 - ♦ authorization (agreement, approval of documents/transactions). These control procedures are exercised by granting employees, in accordance with their job descriptions, rights to perform specific actions: obtain approval for implementation of specific transactions, agree on, or approve, documents/transactions. The participant that

exercises control within his terms of reference verifies and confirms the accuracy, completeness and consistency of the information contained in the document / available for execution of the transaction, correctness of document/transaction execution, in accordance to the local normative documents and the law, as well as existence of the required attachments and supporting documents. Upon approval, the authorized person enacts the document or grants final agreement to the transaction, thereby assuming responsibility for such transaction/or document enactment;

- ◆ physical control of asset safeguarding. Control procedures are exercised through appropriate furnishing of inventory storage locations, entering into liability undertakings with the persons responsible for transactions with inventories, taking scheduled and unscheduled property and liability inventory counts in accordance with LND and applicable legal requirements, as well as control over the security of intangible assets, including: checking the validity of the primary legal and accounting documents and accounting organization of intellectual property;
- ◆ reconciliation of data and comparative analysis of performance indicators, performance assessments. Control procedures are performed for the purposes of verifying the accuracy, completeness and consistency of information received from various sources, and authorizing transactions (for example, changes in the data entered in IT systems are controlled). Indicators are horizontally analyzed, actual performance is measured against budget estimates, key performance indicators are analyzed, benchmarking is performed, most important initiatives, such as operating process improvements, cost cutting, etc. are monitored.

The Company endeavors to automate information input and transformation procedures as much as possible, and in particular to make sure that data input templates and filters are used in the electronic reporting forms and automated calculation procedures embedded in the data processing applications, with the purpose of mitigating the risk of errors associated with manual data inputs and processing.

4.7. INFORMATION AND COMMUNICATION

Information and communication create the environment necessary for the implementation of managerial functions, making timely and justified decisions, and performance of job duties by Company employees.

The Company has information exchange channels in place, including both vertical and horizontal relationships that ensure that all Company IC&ERM participants are aware of the control tools existing in the Company. The Company has IT systems in place (local intranet, electronic document flow system, etc.) which allow to support information exchange at all levels of governance.

Control of information flow management and information security are regulated by approved LND. The Company has a functioning system of information disclosure and communication with clients, suppliers, regulators, and shareholders.

4.8. MONITORING

IC&ERM monitoring aims at regular IC& ERM performance assessment with the purpose of identifying any material IC& ERM weaknesses and ascertaining that it is capable of accomplishing its goals and objectives.

IC& ERM monitoring aims to:

- exercise continuous oversight of control tools functioning, performance and effectiveness of risk management activities on the part of Company management and employees within their respective terms of reference;
- have IC& ERM self-assessment procedures performed by business process owners and control procedure implementing parties;
- have IAD and Subsidiary internal auditor periodically perform reviews to ascertain that transactions conform to the requirements set out in the law and local documents, and assess IC&ERM performance at the corporate level and at the level of business processes;
- have Rosneft Internal Audit Department to regularly monitor any non-standard operations;
- have information on identified IC& ERM weaknesses communicated by IC& ERM participants to IC& ERM participants of appropriate level, depending on the significance of the weaknesses.

IC&ERM monitoring is performed by IC& ERM participants in accordance with the rules approved in LND.

IC& ERM assessment results are used to draft the internal control and risk management section of the Company annual report.

5. SEGREGATION OF DUTIES AND AUTHORITIES IN ROSNEFT INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT

The internal control and enterprise risk management is represented by IC& ERM participants whose roles are segregated depending on their involvement in the IC& ERM development, implementation and performance monitoring processes.

Level 1.

IC& ERM participants at the strategic management level (Level 1) determine the IC& ERM management principles, overall perception of the internal control system in the organization, affecting the employees' understanding of the internal control system significance. Level 1 IC& ERM participants include: Rosneft Board of Directors, Rosneft Board Audit Committee, Rosneft Board Risk Committee.

Level 2.

IC& ERM participants at the operating management and IC& ERM monitoring level (Level 2) directly develop and implement IC& ERM improvement programs. Level 2 IC& ERM participants include: Rosneft President, Rosneft Management Board, Rosneft management.

Level 3.

IC& ERM participants at the control procedure implementation and performance level (Level 3) are continuously involved in the implementation of IC& ERM improvement programs, control procedure implementation and performance monitoring programs. Level 3 IC& ERM participants include: Rosneft Internal Audit Commission, Risk Department, Internal Control Department, Contracting Control and Compliance Department, Rosneft structural unit leaders and employees responsible for the internal control system design and functioning. The Internal Audit Department performs independent assessments of control procedure and risk management activity effectiveness.

IC& ERM participants at each level perform their roles by exercising the rights and performing the duties within their respective terms of reference, set out in the law and Company LND and in accordance with the organizational orders, job descriptions and regulations of structural units.

5.1. ROSNEFT BOARD OF DIRECTORS

Rosneft Board of Directors terms of reference in relation to IC& ERM shall include the following:

- approval of the list of key management and business processes;
- preliminary approval of Rosneft annual report;
- approval of risk management concept and control of its implementation;
- decision making to have Rosneft financial and business operations reviewed by the internal audit commission;

- approval of Rosneft internal documents at the "Policy" level (internal normative documents setting out in detail the goals determined by the development strategy, setting the objectives, ways and principles of their accomplishment, and main risks), including the risk management policy, the corporate governance policy, the credit policy;
- approval of internal documents regulating key management and business processes, as well as other internal documents on matters falling within the Board of Directors terms of reference;
- approval of the Code of Corporate Governance;
- approval of the regulations of procedures for internal control over Rosneft financial and business operations, including the regulations of internal business control, desktop audits and reviews;
- decision making on other matters of IC& ERM functioning.

5.2. ROSNEFT BOARD AUDIT COMMITTEE

Rosneft Board Audit Committee's terms of reference in relation to IC& ERM shall include the following:

The Committee functions shall be to: evaluate candidates for the position of Rosneft auditor, assess auditor's opinion, assess the effectiveness of internal control procedures and risk management procedures, and formulate proposals on the improvement of the above.

The Committee functions further include preliminary review and drafting of decisions on the following matters falling within the Rosneft Board of Directors terms of reference:

- preliminary approval of Rosneft annual report;
- approval of the risk management concept and control of its implementation³;
- determination of Rosneft auditor's fee;
- determination of the list and amounts of funds to be built at Rosneft;
- decision making to use the reserve fund and other Rosneft funds;
- decision making to have the Company financial and business operations reviewed by the internal audit commission;
- endorsement of major transactions in the circumstances provided for in the Federal Law "On joint-stock companies";
- decision making on non-standard transactions (transactions not envisaged by plans of Rosneft financial and business operations), or transactions that result or may result in any adjustments to Rosneft plan of financial and business operations;
- decision making on executing, amending, or early termination of any transactions (or several interrelated transactions) which bind or may bind Rosneft to liabilities equal to, or greater than, an equivalent of US Dollars five hundred million (\$500,000,000);
- determining Rosneft position in relation to making, amendment or early termination, by Group Subsidiaries, of transactions (or several interrelated transactions) which bind or may

³ Until the Board Risk Committee is established in the Company

bind such subsidiary to expenses or other liabilities equal to or greater than an equivalent of US Dollars five hundred million (\$500,000,000);

- approval of Rosneft internal documents related to the Committee functions;
- approval of the regulations of Rosneft funds;
- approval of the regulations of procedures for internal control of Rosneft financial and business operations, including regulations of internal business control, desktop audits and reviews;
- recommendations to the general shareholders meeting on the procedure for the distribution of Rosneft profits and losses based on the financial year results;
- recommendations to the general shareholders meeting on the amount of dividend on shares and payout procedure.

The Committee may be assigned with the task of drafting decisions on other matters falling within the Board of Directors terms of reference:

- oversight of completeness and accuracy of tax, financial and management reporting at Rosneft;
- preliminary review of financial (accounting) statements prepared in accordance with the Internal Financial Reporting Standards (IFRS) or the US Generally Accepted Accounting Practices (US GAAP), as well as materials that contain information on the results of such statements, disclosed by Rosneft to investors;
- preliminary review of Rosneft annual financial statements (on a standalone and consolidated basis), prepared in accordance with the Russian accounting standards;
- review and drafting of Rosneft Board of Directors resolutions on review of Rosneft financial and business operations reviewed by the internal audit commission;
- review and drafting of Rosneft Board of Directors resolutions on the approval of procedures for internal control over Rosneft financial and business operations, in particular, approval of the regulations of internal business control, desktop audits and reviews;
- coordination of the external auditor and Rosneft Internal Audit Department activities, with a view to achieve complete audit coverage;
- supervision of performance of structural units exercising internal control and internal audit functions;
- agreement of Rosneft's risk management internal procedures, analysis of their effectiveness and assurance of adherence thereto;
- assessment of the quality of auditor services provided to Rosneft and such auditor's compliance with the auditor's independence requirements;
- analysis of the results of comprehensive reviews, audits and expert reviews of the Company financial and business operations, undertaken by;
- assurance of continuous interaction between Rosneft Board of Directors and:
 - ◆ Rosneft external auditor(s);
 - ◆ internal audit commission;
 - ◆ executive authorities;

- ◆ structural units of the finance and economics block;
- ◆ Internal Audit Department;
- ◆ Risk Department;
- ◆ Rosneft management and structural unit leaders.
- By way of interaction with the Company external auditor, review of the Company auditor's report describing the internal control procedures, significant disputes that arose during the most recent events, and ways to resolve them;
- conducting joint meetings with internal audit commission members to analyze:
 - ◆ Rosneft internal audit commission's (auditor's) opinion based on the audit of the Company financial and business operations for the year;
 - ◆ Rosneft internal audit commission's (auditor's) opinion based on the audit of the annual financial statements;
 - ◆ the internal audit commission's opinion on the accuracy of data contained in the Rosneft annual report and annual financial statements;
 - ◆ information provided by the internal audit commission which does not relate to the Rosneft financial and business operations annual audit outcomes;
- jointly with the Rosneft financial and economics block structural units, formulation of requirements to financial, tax, accounting and management record-keeping standards at Rosneft, and test-based control of such standards' compliance with the applicable requirements;
- jointly with Rosneft Internal Audit Department, formulation of recommendations concerning endorsement of transactions beyond the Company plans of financial and business operations (non-standard transactions), as well as assessment of the enterprise risk management effectiveness and development of recommendations concerning risk management process improvements;
- endorsement of a decision to appoint/dismiss the Director of Rosneft Internal Audit Department;
- assurance of Rosneft operations compliance with the requirements of the laws of the Russian Federation in the area of countering involvement in corrupt practices and countering corporate fraud, the UK laws, including the UK Bribery Act 2010.
 - ◆ performing necessary activities (including those requiring allotment of additional resources) related to safeguarding of assets and internal control system improvement;
 - ◆ assurance of inevitable and timely investigation of any signs of corporate fraud;
 - ◆ assistance in taking action necessary for calling to liability of Rosneft unit leaders, if violations in their activities resulted in corporate fraud.
 - ◆ independent assessment of the system of countering involvement in corrupt practices, and of the Company operations' compliance with the provisions of the applicable law and the Company local normative documents, keeping shareholders informed of the outcomes of such assessment in the Company Annual Report;
 - ◆ review of investigation results and action taken by Rosneft to prevent any instances of corporate fraud and counter corrupt practices.

- The Committee, jointly with the external auditor and Rosneft structural units exercising the internal control and internal audit functions, reviews any known facts of misconduct, weaknesses of internal control procedures, and assesses their impact on Rosneft reports.

5.3. ROSNEFT BOARD RISK COMMITTEE

Performs the following functions within its terms of reference:

- Preliminary review and drafting of decisions on matters falling with the Board of Directors terms of reference as regards the ERM Development Concept approval and implementation control;
- Preliminary review and drafting of decisions on matters falling with the Board of Directors terms of reference as regards "Policy" level risk management⁴;
- Preparation of recommendations and proposals regarding risk management strategy and procedures;
- Assurance of continuous interaction between the Board of Directors and executive bodies, Risk Department, management and structural unit leaders on the ERM implementation and development matters.

5.4. ROSNEFT PRESIDENT

Rosneft President's terms of reference in relation to IC& ERM include:

- routine management of Rosneft activities in accordance with decisions made by Rosneft general shareholders meeting and Board of Directors
- management of preparation, for Rosneft Board of Directors, of annual reports, annual financial statements, including profit and loss accounts, and reports on distribution of profits, including payout (declaration) of dividends, and losses based on financial year results;
- implementation of internal control procedures;
- coordination of risk management processes⁵ and development of the corporate internal control and enterprise risk management;
- approval of internal documents in the IC& ERM area inasmuch as they are not reserved for Rosneft general shareholders meeting, Rosneft Board of Directors and Rosneft Management Board;
- delegation of authorities, segregation of duties and responsibilities for business process implementation among members of management directly reporting to him;
- approval of Rosneft Internal Audit Department audit and reviews plan;
- approval of follow-up on audits and reviews.

⁴ At present, this function is part of the Board Audit Committee terms of reference

⁵ Including approval of key Company risks and approval of key risk reports, setting/revisiting risk appetite levels and permissible risk limits

5.5. ROSNEFT MANAGEMENT BOARD

Rosneft Management Board's terms of reference in relation to IC& ERM include:

- development of financial and business operation plans for subsequent submission to Rosneft Board of Directors for approval;
- preliminary (before review by Rosneft Board of Directors) review and endorsement of expenses not envisaged by the financial and business operation plan;
- approval of internal documents regulating Rosneft management and business processes, other than those reserved for Rosneft Board of Directors.

5.6. INTERNAL AUDIT COMMISSION

Control of the Company financial and business operations is exercised by Rosneft internal audit commission. Rosneft internal audit commission's terms of reference include:

- review of financial documentation, financial reports, opinions on property inventory counting commission, reconciliation of those documents with the source accounting records;
- analysis of correctness and completeness of financial, tax, management and statistical accounting;
- review of accurate delivery of the Company financial and business operation plans approved by the Board of Directors;
- review of proper implementation of the profit distribution manner approved by the general shareholders meeting;
- analysis of Rosneft financial position, its solvency, liquidity of its assets, its equity to debt ratio, net assets and charger capital, identification of economic condition improvement reserves, formulation of recommendations for Rosneft governance bodies;
- review of timeliness and correctness of payments to suppliers of products and services, payments to budgets and non-budgetary funds, accruals and payments of dividends, interest on bonds, repayment of other obligations;
- confirmation of reliability of the data included in the Company annual report and contained in the Company annual financial, tax and statistical statements;
- timely communication to Rosneft general shareholders meeting, Rosneft Board of Directors, Rosneft President and Rosneft Management Board, of the results of completed audits (reviews) in the form of an opinion or a report, prompt communication of any identified facts of inefficiency and/or unreasonableness of any financial and business operations;
- review of validity of decisions made by Rosneft Board of Directors, Rosneft President, Rosneft Management Board and Rosneft liquidation commission, their conformity with Rosneft Charter and decisions of Rosneft general shareholder meetings;
- verification of Rosneft President's powers to enter into agreements on behalf of Rosneft;
- analysis of general meeting decisions for compliance with the law and Rosneft Charter.

5.7. ROSNEFT INTERNAL AUDIT DEPARTMENT

Rosneft Internal Audit Department's terms of reference in relation to IC& ERM include:

- assessment of IC& ERM effectiveness at the corporate level and at the level of business processes;
- assessment of risk management effectiveness and formulation of recommendations on the improvement of risk management processes;
- efficiency control of the investment projects implemented by the Company;
- conducting of audits, comprehensive audits and individual topic reviews of financial and business operations of Rosneft and Rosneft subsidiaries (affiliates);
- formulation of recommendations concerning elimination of weaknesses identified during audits;
- based on the results of completed reviews/audits, drafting of materials for Rosneft President with proposals concerning rectification of identified inconsistencies;
- follow-up on recommendations regarding rectification of inconsistencies and weaknesses identified in the course of audits and during reviews and inspections;
- submission of the annual audit and reviews plan and respective delivery information to the Board Audit Committee for approval;
- issuance of a performance report within the time frames indicated in the Board Audit Committee work plan;
- confirmation of internal audit's organizational independence to the Board Audit Committee at least once in a year.

5.8. ROSNEFT INTERNAL CONTROL DEPARTMENT

Rosneft Internal Control Department's terms of reference in relation to IC& ERM include:

- formalization of business processes and development of control procedure designs, including compliance procedures in all structural units of the Company and subsidiaries/affiliates;
- development and implementation of a mechanism for the exchange of risk and internal control information among all structural units of the Company;

5.9. ROSNEFT CONTRACTING CONTROL AND COMPLIANCE DEPARTMENT

Rosneft Contracting Control and Compliance Department's terms of reference in relation to IC& ERM include:

- continuous monitoring of tender and contracting procedures' compliance with the requirements of local normative documents;
- control to verify that the pricing methodology approved in the Company applies to supervised related-party transactions;
- verification of grounds behind complaints of counterparties that participated in the tender process, drafting of Conflict Commission reports.

5.10. RISK DEPARTMENT

Risk Department's main functions in relation to IC& ERM include:

- setting up regular systematic interaction with Rosneft and Subsidiary structural units with the purpose of regular receipt of complete and reliable information on the risk management, required for the accomplishment of objectives set in the areas of business planning, analysis and operations process management;
- coordinating the activities in risk identification matters, in Rosneft and Subsidiary structural units;
- drafting of materials to be brought before the Company collegiate bodies competent to handle risk management matters, and assurance that any decisions made at their meetings are implemented;
- interaction with the Company External Auditor in risk identification matters;
- development, implementation, adjustment (as necessary) of local normative documents regulating Rosneft and Subsidiary activities in relation to risk management matters;
- interaction with other structural units of Rosneft and Subsidiaries on risk management-related matters.

5.11. MANAGEMENT AND ROSNEFT STRUCTURAL UNIT LEADERS

In the area of IC& ERM, Rosneft management and Rosneft SU leaders shall assure the following:

- segregation of powers and responsibilities among their administrative subordinates for particular areas of internal control (forms, methods of implementation), in accordance with the segregation of duties principle;
- inclusion of control procedures implementation functions and duties in job descriptions of employees;
- development of a unified corporate culture that would contribute to effective IC& ERM implementation, including setting up of a process for employee awareness and periodic confirmation of knowledge and understanding of the organizational culture rules and ethical principles, requirements and regulations of local normative documents that affect the IC& ERM functioning process;
- control of compliance by Company structural unit employees with the requirements of local normative documents;
- implementation and monitoring of control procedures;
- preparation and issuance, on a regular basis or as requested by superior management, of a control procedure effectiveness report, including timely communication to superior management of any inconsistencies in the control procedures implementation process;
- monitoring of consistency of LND regulating the procedures for the functioning of Rosneft SU and those regulating the procedures for the conduct of Company business processes in which this Rosneft SU is involved;

- assessment, on a regular basis, of employees' activities and periodic revision of requirements to personnel qualifications and training programs in connection with changes in the internal and external environment of Company operations⁶.

5.12. COMPANY EMPLOYEES

All Company employees, being the control procedure implementing parties, are responsible for the following within the IC& ERM framework:

- effective implementation of control procedures and risk management activities in accordance with job descriptions and requirements of local normative documents;
- timely notification of immediate supervisors about new risks and circumstances when implementation of control procedures has become impossible and/or it is necessary to change control procedures and risk management activities in connection with changes in the internal and external environment of Company operations, including development and presentation to Rosneft management and Rosneft SU leaders of proposals regarding implementation of control procedures and risk management activities in appropriate areas of operations;
- receiving of training in the internal control and risk management area, in accordance with the approved training program.

5.13. BUSINESS PROCESS OWNER, CONTROL PROCEDURE OWNER AND RISK OWNER ROLES

The employees that own Company business processes additionally perform the following functions within the internal control system:

- assurance of effective IC& ERM functioning within the business process, and coordination of control procedure implementing parties' activities, for the accomplishment of the respective business process goals;
- analysis and improvement of respective control procedures, including development of activities for the implementation of recommendations received from Rosneft Internal Audit Department, Company external auditor and other interested parties.

Company employees that own control procedures assure development, formalization, implementation, performance and continuous performance monitoring of control procedures.

Company employees that own risks assure analysis and assessment of risks, implementation of risk management activities, perform continuous monitoring of risks and current risk management effectiveness, develop risk management activities taking into account recommendations received from the Internal Audit Department, Risk Management Department and other interested parties.

The IC& ERM participants functions and responsibilities model presented in this section is described at the level of OJSC OC Rosneft and may be rolled out onto subsidiaries, depending on the specific features of their organizations.

⁶ Rosneft management and structural unit leaders perform all such functions within their respective functional duties, in the manner prescribed by, and in accordance with, their job descriptions and requirements of local normative documents.

6. REFERENCES

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2. The Criminal Code of the Russian Federation dated June 13, 1996 No. 63-FZ.
3. The Code of Administrative Offenses of the Russian Federation dated Dec. 30, 2001 No. 195-FZ.
4. Federal Law dated Dec. 26, 1995 No. 208-FZ "On joint-stock companies".
5. Federal Law dated Dec. 25, 2008 No. 273-FZ "On countering corruption".
6. Resolution of the Government of the Russian Federation dated Sep. 23, 2002 No. 696 "On approval of federal rules (standards) of auditing activities".
7. UK Bribery Act 2010, as amended on July 01, 2011.
8. The Code of Corporate Governance of Open Joint-Stock Company "Oil Company "Rosneft", approved by resolution of Rosneft Board of Directors (Minutes No. 6 dated May 17, 2006).

7. BIBLIOGRAPHY

1. COSO (The Committee of Sponsoring Organizations of the Treadway Commission) publication "Internal Control. Integrated Framework".
2. COSO (The Committee of Sponsoring Organizations of the Treadway Commission) publication "Enterprise Risk Management. Integrated Framework"