

## **APPROVED**

Resolution of the Board of Directors

PJSC Gazprom

No. 2847 dated November 15, 2016

### **Policy for arranging and conducting external audits of PJSC Gazprom, its subsidiaries and entities**

#### **1. General provisions**

1.1. This Policy for arranging and conducting external audits of Gazprom, its subsidiaries and entities (hereinafter referred to as the “Policy”) sets forth the main principles of arranging and conducting external audits at Gazprom, its subsidiaries and entities, as well as the procedures and criteria for selecting auditors along with approaches to ensuring compliance with the principles of independence and conflict of interest avoidance by auditors.

1.2. The Policy has been developed in line with the laws of the Russian Federation, the Articles of Association and internal regulatory acts of Gazprom (hereinafter referred to as the “Company”), the Code of Corporate Governance (letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014) and the Guidelines for arranging and conducting statutory audits of the financial (accounting) statements (Order No. 12 of the Federal Agency for State Property Management dated January 21, 2016) (hereinafter referred to as the “Guidelines”), the Code of Professional Ethics for Auditors, and the Independence Rules for Auditors and Auditing Firms approved by the Audit Council, as well as the standards governing audit activities in the Russian Federation and the applicable international auditing standards.

1.3. The Policy is binding on Gazprom, its subsidiaries and entities registered in the Russian Federation and included into the consolidated financial statements in compliance with the Regulation on the procedure for integrating companies into the Gazprom Group for the purpose of generating consolidated financial statements approved by Gazprom’s Order No. 553 dated December 31, 2013.

1.4. The subsidiaries and entities of Gazprom that are registered in the Russian Federation shall develop and adopt an internal regulatory act which is based on this Policy and governs the selection, arrangement and conduct of external audits in accordance with the principles set out herein.

The subsidiaries and entities of Gazprom that are registered outside of the Russian Federation shall develop and adopt an internal regulatory act governing the selection, arrangement and conduct of external audits in accordance with the principles set out herein insofar as it does not come into conflict with the national laws of the country of registration.

1.5. For the purposes of the Policy, an audit shall mean an independent examination

of accounting (financial) statements provided for by Federal Law on Accounting No. 402-FZ dated December 6, 2011, or similarly structured statements or a part thereof, with a view to expressing an opinion on the reliability of such statements.

1.6. The Policy's provisions shall be implemented at Gazprom's subsidiaries and entities through the Company's representatives in the managerial bodies of such subsidiaries and entities.

## **2. Procedure for selecting auditors**

### **2.1. Selection of the Company's auditor**

2.1.1. Pursuant to Federal Law on Auditing No. 307-FZ dated December 30, 2008, a contract for performing a statutory audit of accounting statements at a company that is at least 25 per cent owned by the government is concluded with an auditing firm selected through an open tender in accordance with the procedure required by Russian laws on contract-based procurement of goods, works and services for state and municipal needs.

2.1.2. The tender process for selecting the Company's auditor is arranged and conducted in line with the rules established by Federal Law on the Contracting System for the State and Municipal Procurement of Goods, Works and Services No. 44-FZ (hereinafter referred to as "Law No. 44-FZ").

2.1.3. Tender bids are assessed in accordance with the procedure outlined in the Russian Government's Directive on the Approval of the Rules for Evaluating Bids and Final Offers from the Participants in the State and Municipal Procurement of Goods, Works and Services No. 1085 dated November 28, 2013.

2.1.4. The Audit Committee of the Gazprom Board of Directors (hereinafter referred to as the "Committee") formulates proposals on the composition of a bid committee that will select the auditor, as well as on the activities of the bid committee and timelines of the tender process. The bid committee's chairman is selected from among the Audit Committee's members.

2.1.5. The Committee performs the following functions:

- approval of the tender documentation;
- consideration of the results of bid assessment and comparison by the bid committee;
- preparation of recommendations for the Gazprom Board of Directors (hereinafter referred to as the "Board of Directors") concerning the candidacy of the Company's auditor.

2.1.6. In pursuance of Clause 2.2 of the Federal Agency for State Property Management's Order No. 48 dated February 22, 2011, concerning the management of activities in structural units of the Federal Agency for State Property Management and its regional offices, with regard to arranging the annual statutory audit of

accounting (financial) statements of federal state unitary enterprises and joint stock companies that are at least 25 per cent owned by the government, the Company provides for the representation of the Federal Agency for State Property Management in the bid committee.

2.1.7. The auditor's candidacy is approved at the annual General Shareholders Meeting after the competitive selection process, taking into account the proposals by the Board of Directors.

2.2. For the purposes of Gazprom's subsidiaries and entities<sup>1</sup> that are described in Clause 1.3 of this Policy and whose performance indicators are essential for generating the consolidated financial statements, centrally-managed competitive procurement of auditor services shall be carried out in compliance with the Regulation on procurement of goods, works and services by Gazprom and the Gazprom Group's companies<sup>2</sup> on the basis of the common approach, rules and criteria outlined in the relevant procurement documentation.

2.3. The documentation on the procurement of auditor services for Gazprom's subsidiaries and entities<sup>1</sup> shall outline the tasks of the Company's auditor, including the audit of the interim accounting (financial) statements in the scope agreed with the Company.

2.4. The results of centrally-managed competitive procurement of auditor services for Gazprom's subsidiaries and entities<sup>2</sup> underlie the decision-making of the sole participant (shareholder) of the relevant companies. If the Company is not the sole participant, the auditor for Gazprom's subsidiaries and entities<sup>1</sup> shall be approved in accordance with the procedure specified by the laws, articles of association and other internal documents of the relevant company based on the results of the centrally-managed selection process.

2.5. The subsidiaries and entities of Gazprom which are not covered by the centrally-managed competitive procurement of auditor services and for which the auditor selection is not governed by Federal Law on Auditing No. 307-FZ dated December 30, 2008, shall arrange the competitive procurement of auditor services and the auditor approval process at their own discretion in accordance with the legislation, this Policy and other regulatory acts.

### **3. Auditor selection criteria**

3.1. In addition to the requirements to bidders specified by laws and the Company's regulatory documents, the procurement documents shall take into account the following:

3.1.1. Information about the auditing firm shall be included in the register of auditors and auditing firms maintained by a self-regulatory auditor organization.

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<sup>1</sup> Except for the companies for which the auditor selection process is governed by Federal Law on Auditing No. 307-FZ dated December 30, 2008.

<sup>2</sup> Approved by Resolution of the Gazprom Board of Directors No. 1969 dated April 19, 2012.

3.1.2. The auditing firm shall undergo external quality control.

3.1.3. During the period of procurement and expected signing of an auditing contract, the bidder shall not be subjected to such measures as suspension of membership in a self-regulatory auditor organization.

3.1.4. The requirement for the bidder to be independent from the audited person in terms of the requirements set by laws, applicable audit standards and the Independence Rules for Auditors and Auditing Firms.

3.2. The following non-monetary criteria are introduced to assess the bids for the competitive selection of an auditing firm for performing the annual statutory audit of Gazprom:

- quality characteristics of the procured item;
- qualifications of the bidder.

3.2.1. Under the Quality Characteristics of the Procured Item criterion, bids are assessed based on the quality of services indicator characterized by the proposed auditing methods, which are evaluated on the basis of their comprehensiveness, level of detail, compliance with the term of reference and consideration of industry-specific issues affecting the accounting procedures, preparation of accounting statements and conduct of audit.

3.2.2. Under the Qualifications of the Bidder criterion, bids are assessed according to the following indicators that capture the essence of this non-monetary assessment criterion and factor in the specifics of the audit services assessment:

3.2.2.1. The open tender Bidder's experience in the successful provision of services of similar scope and nature. This indicator assesses:

- the company's experience over the last three years in auditing Russian companies that are similar to Gazprom in size and scale (except for oil and gas companies);
- the company's experience over the last three years in auditing Russian oil and gas companies that are similar to Gazprom in size and scale;

3.2.2.2. The open tender Bidder's human resource capacity.

This indicator concerns the number of the company's certified professionals (duly notarized copies of qualifications/auditor certificates shall be submitted for this purpose) who will be involved in the implementation of the audit contract and have the experience of auditing Russian oil and gas companies that are similar to Gazprom in size and scale over the last three years.

If, during the tender process, the open tender bidder to whom the contract is awarded offers a contract price that is 25 per cent or more below the initial (maximum) price of the contract, this bidder shall only be allowed to sign the contract after providing a security guaranteeing contract performance in accordance with the laws establishing

anti-dumping measures.

3.3. The following non-monetary criteria are introduced to assess the bids concerning procurements at subsidiaries:

- quality of services and qualifications of the bidder;
- technical proposal.

The bids are assessed under each criterion with the help of indicators that capture the essence of the non-monetary assessment criterion and factor in the specifics of the audit services assessment:

3.3.1. Assessment of the bids under the Quality of Services and Qualifications of the Bidder criterion is carried out according to the following indicators:

- experience in the provision of services for which the procurement is performed;
- composition and qualifications of the bidder's personnel;
- availability of professional indemnity insurance.

3.3.1.1. The following indicators are used when assessing the bidder under the Experience in the Provision of Services for Which the Procurement is Performed indicator:

- average annual scope of the bidder's services for which the procurement is performed;
- experience in providing services regarding the audit of financial statements to Gazprom Group companies or any other oil and gas companies;
- experience in providing support services for tax inspections or comprehensive analysis of the tax calculation procedure by oil and gas companies;
- the bidder's listing in the rating of major auditing firms (e.g. compiled by the Expert RA rating agency); the rating shall be the latest as of the date of publication;
- membership in an international network of audit and/or accounting firms.

3.3.1.2. The following indicators are used when assessing the bidder under the Composition and Qualifications of the Bidder's Personnel indicator:

- competent, experienced and qualified in-house personnel to provide audit services for which the procurement is performed (number of people);
  - the leader of the audit team and the key professionals possessing auditor qualification certificates;
  - the audit quality inspector possessing an auditor qualification certificate and experience in conducting audit quality reviews at Gazprom Group companies under at least 5 contracts;

- no less than 50 per cent of professionals on the planned audit team having experience in auditing Gazprom Group companies over at least the last 3 years;
- the Bidder having a separate unit dealing with accounting methodology, as well as a separate legal unit;
- the Bidder having experience in cooperating with major international auditing firms when auditing the condensed and consolidated statements. Availability of a liaison protocol.

3.3.2. Assessment of bids according to the Technical Proposal criterion includes a review of the proposed auditing methods, which are evaluated on the basis of their comprehensiveness, level of detail, compliance with the term of reference and consideration of industry-specific issues affecting the accounting procedures, preparation of accounting statements and conduct of audit.

3.4. The documentation on the procurement of auditor services for Gazprom's subsidiaries and entities shall include the requirements for the provision of guarantees of proper quality assurance by the bidder. Such guarantees serve as a means of protecting the interests of Gazprom's subsidiaries and entities from unfair competition on the part of the bidders.

3.5. The boards of directors (audit committees) of Gazprom's subsidiaries and entities entitled to select the auditor at their own discretion may specify the contents and significance of the auditor selection criteria based on the scope and profile of the company on the mandatory condition that there is no conflict of interest. In the absence of boards of directors (audit committees) at Gazprom's subsidiaries and entities, the auditor selection criteria shall be determined by the sole executive body of the company in question.

#### **4. External audit procedure**

4.1. The scope of the audit services required by Gazprom, its subsidiaries and entities shall be determined by the term of reference, which forms part of the procurement documentation at the stage of preparation for competitive procurement of the external auditor services.

4.2. Proceeding from the scope of services defined in the term of reference, the auditor shall independently determine the forms and methods of audit services based on auditing standards, as well as the size and composition of the audit group providing audit services.

4.3. The auditor shall ensure that the auditing process involves professionals whose qualifications were assessed during the competitive procurement. In the event of unforeseen circumstances, the professionals engaged in the auditing may only be replaced by professionals with the same or higher qualifications.

4.4. If the need arises to engage the professionals of the auditing firm in the inventorying of the assets owned by Gazprom, its subsidiaries and entities, the

auditor shall notify the audited company in advance about such need and align the audit procedures with the schedules of the relevant inventory commissions.

4.5. Gazprom, its subsidiaries and entities shall provide requisite assistance to the auditing firm in performing the audit in a timely and complete manner, create the conditions for the same, furnish the required information and documentation, give clarifications and confirmations upon request from the auditing firm, and contact third parties for any information needed for the audit.

4.6. Gazprom, its subsidiaries and entities shall not take any actions aimed at restricting the range of issues that need to be clarified through auditing or at concealing (limiting access to) information and documentation requested by the auditing firm.

4.7. Gazprom, its subsidiaries and entities shall pay for the services of the auditing firm in a timely manner, including in cases when the audit opinion is not consistent with the position of the audited company.

4.8. As a result of the audit services, an audit opinion shall be presented to Gazprom, its subsidiaries and entities along with:

- recommendations concerning internal control systems and improvements with regard to accounting and preparation of accounting (financial) statements;
- report for the Audit Committee, Board of Directors and Management Committee of Gazprom, the board of directors and audit committee of a subsidiary company or entity (or, in the absence of the former, to any other managerial body of the subsidiary or entity), including recommendations on improving performance and enhancing the corporate value;
- other reports provided for by this Policy and the term of reference for the audit.

4.9. The subsidiaries and entities of Gazprom which are not covered by the centrally-managed competitive procurement of auditor services and for which the auditor selection is not governed by Federal Law on Auditing No. 307-FZ dated December 30, 2008, shall ensure that the efficiency of the external audit is assessed.

## **5. Approaches to ensuring compliance with principles of independence and conflict of interest avoidance by auditors**

5.1. The auditor shall have the right to provide the Company and Gazprom Group entities with audit-related services and other auxiliary services if such services do not violate the independence of the external auditor and do not contradict the restrictions contained in the applicable Russian laws on auditing.

5.2. For the purpose of this Policy, a conflict of interest shall mean a situation in which an auditing firm has interests that may influence its opinion about the reliability of the accounting (financial) statements of the audited company.

5.3. The cases when the auditing firm has interests which lead or may lead to a

conflict of interest and the measures for preventing or resolving conflicts of interest are outlined in the laws of the Russian Federation, Auditing Standards, the Code of Professional Ethics for Auditors, and the Independence Rules for Auditors and Auditing Firms.

5.4. Depending on the circumstances leading to a conflict of interest and affecting the independence of the auditor, Gazprom, its subsidiaries and entities and the auditor shall take all necessary measures outlined in the laws of the Russian Federation, Auditing Standards, the Code of Professional Ethics for Auditors, and the Independence Rules for Auditors and Auditing Firms.

5.5. If a conflict of interest may result in a violation of one or more basic principles of ethics (objectivity, confidentiality, professional behavior) in such a way that said violation cannot be eliminated or minimized to an acceptable level, a decision shall be made to terminate one or several assignments of the auditor that produce a conflict of interest.

5.6. If the auditor finds out that the appropriate measures for eliminating threats to independence or minimizing them to an acceptable level cannot be taken, the auditor shall either remove the circumstances or relationships posing threat to independence, abandon the assignment at the stage of its acceptance or terminate it.

5.7. The auditors of Gazprom, its subsidiaries and entities shall ensure compliance with independence requirements for auditing firms outlined in Russian laws, as well as the applicable laws of foreign countries and independence rules for auditors and auditing firms.

5.8. The payment procedure and the amount of remuneration for auditing and audit-related services provided by the auditors of Gazprom, its subsidiaries and entities cannot be made contingent upon the demands of the audited companies regarding the content of the conclusions that may result from the audit.

5.9. The Committee, within its purview, shall take measures to control compliance with the principles of independence and conflict of interest avoidance by the Company's auditor, including but not limited to the following:

5.9.1. Discussions with the Company's auditor and executive bodies concerning the relationships between the auditor and the Company (including services provided by the auditor to the Company) that may affect the auditor's independence.

5.9.2. Receipt and review of an official annual written report from the Company's auditor describing all relationships between the auditor and the Company, as well as between the auditor and other subsidiaries and entities of Gazprom, with a view to identifying the circumstances that may affect the independence of the Company's auditor.

5.9.3. Shaping of an opinion on the independence of the Company's auditor and development of recommendations for the Board of Directors on the measures to be taken to ensure independence of the Company's auditor.



5.10. The subsidiaries and entities of Gazprom shall carry out control over the auditor's independence and conflict of interest avoidance through their boards of directors (audit committees). In the absence of a board of directors (audit committee), this task shall be assigned to the sole executive body of Gazprom's subsidiary or entity.

## **6. Final provisions**

6.1. The Policy shall be approved by the Board of Directors, with a preliminary review by the Audit Committee.

6.2. Issues which are not covered by the Policy shall be settled in accordance with the laws of the Russian Federation and other applicable laws, as well as by the internal regulatory acts of Gazprom, its subsidiaries and entities.

6.3. If the provisions of the Policy come into conflict with the laws that are binding for Gazprom, its subsidiaries and entities, the Policy shall be implemented to the extent that it complies with the laws.