GOVERNANCE SYSTEM

ADDRESS FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders and Investors,

Gazprom Neft’s key objective for the period until 2025 is to increase shareholder value through the effective use of the resource potential and the greater incorporation of oil reserves in development, the establishment of new sources of business growth, and a maximum return on investment in new projects. In 2017, Gazprom Neft made steady progress towards achieving its strategic goals, continued to consistently improve its production indicators, and demonstrated strong financial results. This is largely a reflection of the Company’s effective management and the high quality of the decisions made while clearly adhering to the path specified in the long-term strategy.

The Board of Directors plays the most important role in resolving strategic issues that aim to ensure the sustainable development of Gazprom Neft’s business. This management body focused on the fulfilment of Gazprom Neft’s strategic performance indicators in 2017 as well. The Board of Directors concluded that Gazprom Neft’s business developed in full accordance with the long-term plans and goals outlined in the strategy in 2017. At the same time, the decision was made to exclude a target benchmark for oil refining volume abroad from the company’s long-term development strategy due to changes in the macroeconomic environment.

Challenges related to the innovative development of Gazprom Neft were another focus of the Board of Directors, which reviewed the implementation of the Company’s innovative development programme for 2016 and took a close look at priority projects and tools for implementing Gazprom Neft’s technology strategy. The Company also approved its target environmental indicators for the period of 2017-2019, which take into account the specifics of production activities, the Company’s development plans as well as environmental measures at Gazprom Neft industrial facilities.

The principles of corporate governance at Gazprom Neft are based on the meticulous observance of the rights and interests of shareholders and strict compliance with the requirements of Russian law. Adhering to the recommendations of the Code of Corporate Governance, each year the Board of Directors analyses its own activities and reviews an assessment of the state of corporate governance at the Company. The assessment conducted in 2017 confirmed that such key components of the corporate governance system as Shareholder Rights, Information Disclosure, and Corporate Social Responsibility are consistent with best practices.

In 2017, the Board of Directors approved a number of important regulatory documents that ensure the regulation of the Company’s activities. Such documents include the Internal Control Policy, the Regulation on Information Policy, the Regulation on Insider Information, and the Internal Audit Policy.

Gazprom Neft continues to improve its corporate governance system. In doing so, the Company relies on the best Russian and international experience and utilizes tools that meet its current business needs and aim to improve its effectiveness.

ALEXEY MILLER
Chairman of the Board of Directors
Gazprom Neft PJSC
DESCRIPTION OF CORPORATE GOVERNANCE PRACTICE

Corporate governance at the Company is based on the principle of sustainable development and increasing the shareholder value of Gazprom Neft in the long term. The Company implements this principle through a system of responsible interaction that involves building trust with employees, suppliers, customers as well as residents in the regions where it operates.

The corporate governance of Gazprom Neft PJSC features a single main shareholder – Gazprom PJSC with a stake of 95.68%. The remaining common shares are distributed among minority shareholders, including individuals and legal entities, which generally dictates the distribution of the balance of power among those involved in corporate relations.

The Board of Directors reviews information on improvements to the corporate governance practice of Gazprom Neft PJSC on an annual basis.

In general, the Company adheres to legislative requirements and certain standards of best corporate governance practices.

PROTECTION OF SHAREHOLDERS’ RIGHTS

The corporate governance practice of Gazprom Neft PJSC features the following positive aspects in terms of the protection of shareholder rights:

- Expanded powers of the Company’s Board of Directors as regards to decision-making on significant transactions.
- The Company conducts a competitive selection of suppliers of goods and services whose cost exceeds a certain level as required by the relevant internal document. The Board of Directors regularly reviews procurement policy issues.
- The Company’s positive dividend history.
- The hiring of a generally recognised audit company to audit the Company’s financial statement per International Financial Reporting Standards (IFRS) and Russian Accounting Standards (RAS), and no consulting services provided by an external auditor.
- The Company has established a practice for working with minority shareholders: Gazprom Neft PJSC regularly meets with investors and shareholders, holds the ‘Investor’s Day’ event and takes part in all major conferences by investment and brokerage companies. The Company regularly informs investors and shareholders about its production plans by arranging onsite meetings at manufacturing and production sites.
- The Company’s internal documents envisage a procedure to update outdated information about shareholders, which is periodically implemented jointly with the registrar.

- A shareholder user account has been set up on the registrar’s website, which enables registered individuals to obtain information about the Company’s corporate events, accrued dividends and withheld taxes, payment document numbers and reasons for refunds, among other things.

ACTIVITIES OF MANAGEMENT AND CONTROL BODIES

The practice of corporate governance in terms of the activities of the management and control bodies is characterized by the following positive aspects:

- Independent directors have been elected to the Board of Directors since 2012.
- The Board of Directors is balanced in terms of the work experience of Board members and their key skills that are required for the Board to work effectively.
- Meetings of the Board of Directors are held regularly, with a sufficient number of members and in accordance with a previously approved plan.
- The Company utilises the practice of inducting newly elected members of the Board of Directors.
- The preparation procedure for meetings of the Board of Directors provides Board members with the opportunity to properly prepare for the meeting.
- The Audit Committee and Human Resources and Remuneration Committee have been set up under the Board of Directors. The activities of the Committees are governed by the relevant regulations.
- The Gazprom Neft PJSC Board of Directors evaluates its own work and the individual work of its members.
- The purview of the Gazprom Neft PJSC Board of Directors includes monitoring major transactions concluded by significant legal entities under the Company’s control.
- Gazprom Neft PJSC provides liability insurance for members of the Board of Directors.
- The Audit Committee and Human Resources and Remuneration Committee report on their work to the Board of Directors annually.
- The Company has developed a regulatory and methodological framework for risk management and set up an internal division to manage key risk management functions;
- The Company ensures the comprehensive regulation of any conflicts of interests among members of the executive bodies;
- the functions of the Internal Audit Department are consistent with the recommendations of best corporate governance practices and ensure the functional accountability of the Internal Audit Department to the Board of Directors.
INFORMATION DISCLOSURE

The financial and non-financial information disclosure practice features the following positive aspects:

- The Company discloses information about the structure of its shareholder capital.
- The Company discloses detailed information about members of the Board of Directors and the Management Board.
- The Company discloses information about the structure of compensation for members of the Gazprom Neft Board of Directors and Management Board.
- The Company discloses all the main forms of financial statements prepared in accordance with IFRS and RAS. The disclosed statements are accompanied by the relevant audit reports.
- Gazprom Neft PJSC discloses detailed information about related party transactions.
- The Gazprom Neft PJSC website is regularly maintained and updated with a large amount of current information about the Company and its operating results.

SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

Corporate social responsibility and sustainable development activities performed by Gazprom Neft PJSC feature the following positive aspects:

- The Company has approved internal documents that govern corporate social responsibility issues.
- Gazprom Neft PJSC has adopted a Corporate Conduct Code that states its mission, values, core ethical principles and business ethics standards.
- The Company implements corporate social projects for Gazprom Neft PJSC employees, clients, counterparties and people living where the Company operates in addition to charitable and sponsorship projects.
- The Company prepares a social report that meets GRI standards.
- The Company’s activities are certified for compliance with the ISO 14001 standard as regards environmental protection.
- The activities of the Gazprom Neft Group’s enterprises are certified for compliance with the ISO 9001 standard as regards quality management.
- The Company has an Anti-Fraud and Corruption Policy.

COMPLIANCE WITH THE PRINCIPLES OF THE CODE OF CORPORATE GOVERNANCE

The proportion of fully observed principles jumped from 65.4% to 74.4%.

<table>
<thead>
<tr>
<th>Section</th>
<th>Principles observed in full</th>
<th>Principles observed in part</th>
<th>Principles not observed by the Company</th>
<th>Principles recommended by the Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights of shareholders and equitable treatment of shareholders in the exercising of their rights</td>
<td>11</td>
<td>1</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Board of Directors of the Company, purview, committees, independence</td>
<td>23</td>
<td>9</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>Corporate secretary of the Company</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Remuneration system for members of the Board of Directors, executive bodies and other key employees of the Company</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Risk management and internal control system</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Information disclosure about the Company, information policy</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Significant corporate actions</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

ROLE OF THE CORPORATE CENTRE IN IMPROVING THE MANAGEMENT OF SUBSIDIARIES

The Corporate Centre of the Gazprom Neft Group is Gazprom Neft PJSC, which ensures effective control over all processes. As of 31 December 2016, the Gazprom Neft structure included 134 Russian and foreign legal entities.

The corporate governance structure of the Gazprom Neft Group’s subsidiaries is strictly aligned with that of Gazprom Neft PJSC. Subsidiaries retain a three-tiered structure of governing bodies – the Meeting of Shareholders (Participants), the Board of Directors and the sole executive body.

Regardless of the structure of its charter capital, Gazprom Neft PJSC is the core Company with respect to the organizations of the Gazprom Neft Group, as duly recorded in the Charters of the Gazprom Neft Group’s subsidiaries.

The effective corporate governance and monitoring of subsidiary activities is ensured, among other ways, by submitting key matters concerning subsidiary activities to the management bodies of Gazprom Neft PJSC for consideration.

DECISION-MAKING MATRIX AT SUBSIDIARIES

**The Gazprom Neft PJSC Board of Directors** adopts decisions on the following matters concerning subsidiary activities:

- increasing or decreasing a subsidiary’s charter capital;
- contributions to a subsidiary’s property;
- the acquisition, alienation or encumbrance of a company with the shares/interests of other organizations;
- contributions by a subsidiary to the property of other organizations;
- the issuance and placement of shares by a subsidiary;
- the reorganization or liquidation of a subsidiary.

**The Gazprom Neft PJSC Management Board** considers matters concerning the strategic development of subsidiaries activities.

**GMS/GMP of a subsidiary**

The legally prescribed exclusive purview of the General Meeting of Shareholders/Participants of subsidiaries regarding decision-making on key matters concerning subsidiary activities is supplemented by items concerning the approval of any transactions for an amount exceeding a certain threshold (which is determined for each subsidiary individually taking into account the subsidiary’s financial and economic performance).

The Board of Directors of subsidiaries has broader purview compared with the law due to restrictions on the purview of the sole executive body with respect to the adoption of decisions on transactions that involve the receipt or provision of loans (credits), the sale, other alienation or encumbrance of real estate, the lease of key immovable property, the acquisition, alienation or encumbrance of stakes in charter capital, shares, bonds, mortgage or bills, transactions that involve the gratuitous alienation of property, corporate contracts and other agreements on joint activities and any transactions exceeding a certain threshold; the adoption of decisions on participation or the termination of participation in other organizations as well as a pre-determined position on matters that fall within the purview of the General Meeting of Shareholders (Participants) of business companies in which a subsidiary is a shareholder (participant).

The Company has drafted and approved procedures that allow for coordinating and monitoring the activities of subsidiaries under the guidance of the Corporate Centre as part of the implementation of the Company’s development strategy:

Collective decision-making was enshrined about the participation of any organization that is part of the Gazprom Neft Group in another organization, whether commercial or non-commercial, along with an indication of the circle of decision-makers. Matters that fall within the purview of the Gazprom Neft PJSC Board of Directors are submitted to the Gazprom Neft PJSC Management Board for a preliminary decision.

The decision-making procedure was specified for the Board of Directors, General Meeting of Shareholders and General Meeting of Participants of Gazprom Neft subsidiaries. The involvement of representatives in the governing bodies of the Gazprom Neft Group is based on the principles of balance and professionalism. Decisions are adopted collectively and administered from the top down, thus making it possible to maximise the effectiveness of the decisions.

The management structure of joint ventures in which the Gazprom Neft Group has an interest has been formalised and approved. In order to effectively manage them, the Company has established the concept of an asset curator whose functional responsibility is to coordinate the management of the joint venture.

The Boards of Directors of subsidiaries are formed in accordance with the established principles of functional subordination and the participation of corporate function employees. The candidates for the Boards of Directors and Audit Commissions of subsidiaries are approved annually by an order of the Gazprom Neft CEO.
Regardless of the level of corporate ownership or the charter capital structure of subsidiaries, the executive bodies of the Gazprom Neft Group’s organizations (including the CEO) are appointed and dismissed after the approval of the candidates by the Corporate Centre.

**KEY CHANGES TO THE CORPORATE STRUCTURE OF GAZPROM NEFT**

Gazprom Neft acquired a 25.02% stake in Evrotek-Yugra along with the right to increase the stake to 50%. Evrotek-Yugra belongs to Spain’s Repsol and owns seven mineral exploration and production licenses in the Khanty-Mansi Autonomous District-Yugra (KMAD). The joint venture will continue exploration work in the Kondinsky District in the southwestern part of the KMAD, where all the licensed areas are located. Gazprom Neft and Repsol will manage the company Evrotek-Yugra on a parity basis.

In December 2017, Gazpromneft-NNG JSC closed a deal to sell a 100% stake in the charter capital of Noyabrskoye LLC, which owns licenses for the West Noyabrskoye and South Noyabrskoye sections in the Yamalo-Nenets Autonomous District.

In order to separate the different activities of Gazpromneft-Krasnoyarsk LLC, Gazpromneft-Laboratory LLC was established and put in charge of activities to monitor the quality of petroleum products, which will help to better plan the budget, profitability, and the price of services as well as to ensure the transparency of the laboratory tariff and the absence of uncontrolled costs. Gazprom Neft PJSC is the sole participant in Gazpromneft-Laboratory LLC.

Optimizing the asset ownership structure of the Slavneft OGC OJSC Group of Companies resulted in the liquidation of the following foreign companies of the Gazprom Neft Group in 2017: Sibneft Oil Trade Company Ltd., Jones Resource Ltd., and Velasco Holding and Services Limited. Ownership over the assets of the Slavneft Group’s companies that is attributable to Gazprom Neft was completely withdrawn from foreign jurisdictions and is handled by the Russian company GPN-Invest LLC.

In addition, the following foreign companies were liquidated upon completion of their projects in an effort to optimize the Group’s corporate structure:
- Gazprom Neft Projects B.V. (Netherlands);
- SIBIR ENERGY Limited (UK);
- Gazprom Neft North Africa B.V. (Netherlands);
- GPN CANADA PROJECT CORPORATION (Canada).

**REORGANIZATION OF SALES ENTERPRISES**

Due to a change in the regional sales model, the Gazprom Neft Group continued the process of restructuring its sales companies in 2017 in order to create a retail business centre on the core of one of the Gazprom Neft Group’s enterprises with the aim of enhancing the economic efficiency of petroleum product sales, growing the scale of the petroleum product business, improving the quality of management decisions, accelerating the pace at which innovative solutions and new technologies are introduced and business processes are automated, reducing administrative costs, and introducing the concept of the centralized management of tank farm network by a specialized company of the Gazprom Neft Group.

As part of the introduction of this model, the Gazprom Neft Group’s sales assets were restricted as follows in 2017:
- Gazpromneft-Omsk JSC ceased operations as a result of its merger with Gazpromneft-Centre LLC;
- Gazpromneft-Ural JSC was reorganized in the form of the spin-off of Gazpromneft-Ural LLC (petrol stations) and Gazpromneft-Ural LLC (tank farms) with the simultaneous merger of the spin-off companies into Gazpromneft-Centre LLC and Gazpromneft-Terminal LLC;
- Gazpromneft-ZS LLC was reorganized in the form of the spin-off of Gazpromneft-ZS LLC (Retail);
- Gazpromneft-Tyumen PJSC was reorganized in the form of the spin-off of Gazpromneft-Tyumen LLC;
- Gazpromneft-Novosibirsk JSC was reorganized in the form of the spin-off of Gazpromneft-Novosibirsk LLC (petrol stations);
- Gazpromneft-South JSC ceased operations as a result of its merger with Gazpromneft-Centre LLC;
- Gazpromneft-MNGK JSC was liquidated.

**COMMITMENT TO BETTER CORPORATE GOVERNANCE**

As it improves corporate governance practices, the Company closely monitors the development of corporate legislation and corporate governance practices in Russia and abroad.

In 2017, the following key measures were taken to improve corporate governance:
- the Shareholder’s User Account online service was established¹;
- measures were taken to update the shareholder register;
- the ability for electronic voting was introduced at the Extraordinary General Meeting of the Company’s Shareholders on 15 December 2017;
- the practice of a review of the Company’s key risks by the Board of Directors was introduced;
- the fundamental Standard ‘Regulation on Corporate Procedures for Major Transactions and Related Party Transactions’ was approved;

---

¹ An electronic service available on the website of DRAGA JSC enabling a person who has an account in the shareholders register to receive information from the issuer and the registrar.
the Board of Directors approved the following internal documents: the External Audit Policy, the Internal Control Policy, the Regulation on Insider Information, and the Regulation on Information Policy, Policy in Internal Audits,
the Committees of the Board of Directors intensified their work;
the Internal Audit Department conducted an external evaluation of activities and the results were submitted to the Audit Committee.

INITIATIVES TO DEVELOP CORPORATE GOVERNANCE PRACTICES
Concerning the observance of shareholders’ rights:
- improved transparency of the information disclosed;
- the continuation of measures to improve interaction with shareholders on matters such as: updating the shareholder register, expanding the capabilities of the Shareholder’s User Account online service, applying electronic notification of shareholders about corporate actions of the Company;
- ensuring registered shareholders have an opportunity for e-voting at the General Meeting of Shareholders.

Concerning improvements to the efficiency of work by management bodies:
- improvements to certain procedures for organizing the work of management bodies;
- the drafting of a new version of the Company’s key internal documents, including the Charter, the Regulation on the Board of Directors, and the Regulation on the Management Board, in order to bring them in line with the requirements of legislation, regulators, and best corporate governance practices;
- the development of a procedure as part of the regulation on the work of the Board of Directors under which independent directors will be required to state their position on significant key documents prior to their approval.

Concerning improvements to the quality of corporate governance and adhering to best practices:
- improvements to the management system of subsidiaries;
- updating of internal documents and procedures regulating corporate governance relations within the Group.

CORPORATE GOVERNANCE SYSTEM

The corporate governance system of Gazprom Neft PJSC is based on principles that aim to preserve and multiply assets, increase market value, maintain the Company’s financial stability and profitability as well as respect the rights and interests of shareholders and other interested parties.

The management of a complex multi-level vertically integrated oil company (VIOC) structure that includes geological exploration, production, refining and sales both within the country and abroad and requires a professional team of managers and a highly efficient system of corporate governance and control. The Company currently has a well-defined and clear organizational structure with a high level of interaction between governing bodies and clear delineation of management and control duties to guarantee sustained growth in the Company’s value for shareholders in the long term.

The disclosure and transparency of financial information along with the preservation of the Company’s interests regarding the protection of trade secrets and other confidential information play a significant role in the Gazprom Neft corporate governance system.

For Gazprom Neft, the most important information distribution channel available to the greatest number of stakeholders is the Company’s official website (www.gazprom-neft.com), the annual report and sustainable development report, as well as the website’s dedicated IR section (ir.gazprom-neft.com). These resources can be used to view the latest Company news, financial and production indicators, reporting and other useful information about the Company’s operations, as well as documents governing the activities of Gazprom Neft management and supervisory bodies, including the Charter, Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Management Board, Regulation on the CEO, and Regulation on the Audit Commission.

Adhering to the principle of equal access to information for all stakeholders, Gazprom Neft publishes information on its official website in both Russian and English.
General Meeting of Shareholders
The supreme governing body whose purview includes the most significant issues concerning the Company’s activities.

Board of Directors
Performs the general management of the Company’s operation, determines the Company’s strategy, policy and core operating principles. Subordinate to the General Meeting of Shareholders and acts in the interests of all shareholders.

Executive bodies
Manage the Company’s day-to-day operations and are subordinate to the General Meeting of Shareholders and the Board of Directors.

Management Board
CEO
Appointment based on a decision of the Board of Directors.

Secretary of the Board of Directors
Handles effective regular interaction with shareholders and the coordination of the Company’s actions to protect the rights and interests of shareholders, and also supports the effective work of the Board of Directors.

Human Resources and Remuneration Committee
Evaluates the effectiveness of the human resources policy and remuneration system, determines the criteria for selecting candidates for the Board of Directors, and conducts an evaluation of the effectiveness of the Board of Directors’ activities.

Internal Audit Department
Provides the Board of Directors (via the Audit Committee) and the Company’s Management (CEO and the Management Board) with independent, objective, reasonable, and substantiated guarantees and consultations that aim to improve the Company’s activities. The Department helps to achieve the Company’s goals by taking a systematic and consistent approach to assessing and improving the effectiveness of corporate governance, risk management, and internal control processes.

Audit Committee
Handles the monitoring of the Company’s financial and economic activities, is elected by the Board of Directors, and acts on the basis of the Charter and internal regulations.

Audit Commission
An elective body that exercises control over the Company’s financial and economic activities.

External auditor
A professional audit organization approved by the General Meeting of Shareholders per a recommendation from the Board of Directors adopted based on an audit conducted by the Audit Committee. Conducts an independent audit of financial and economic activities.

Functional subordination
Election, formation
Reporting
MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme governing body whose purview includes the most significant issues concerning the Company’s activities.

GENERAL MEETINGS OF SHAREHOLDERS OF GAZPROM NEFT PJSC HELD IN 2017

<table>
<thead>
<tr>
<th>Annual General Meeting of Shareholders</th>
<th>9 June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved the Company’s annual report and accounting statements for 2016. Gazprom Neft shareholders supported the recommendation of the Board of Directors to pay dividends in the amount of RUB 50.64 billion (25.3% of the Company’s consolidated net profit for 2016 calculated in accordance with IFRS). Payouts per ordinary share totalled RUB 10.68, a record figure for dividend payments over the entire history of Gazprom Neft. Approved PricewaterhouseCoopers Audit JSC as the auditor of Gazprom Neft for 2017. Shareholders also considered a number of issues on the agenda of the annual meeting:  ■ elected new versions of the Board of Directors and the Audit Commission;  ■ approved the amount of remuneration for members of the Board of Directors and the Audit Commission.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Extraordinary General Meeting of Shareholders</th>
<th>15 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decided to pay interim dividends for the first 9 months of 2017 in the amount of RUB 47.41 billion (RUB 10 per one ordinary share).</td>
<td></td>
</tr>
</tbody>
</table>

BOARD OF DIRECTORS

The Board of Directors performs the general management of the Company’s operations. In accordance with its purview, the Board of Directors determines the Company’s strategy, policy and core operating principles, including with respect to investment and borrowing, risk management, property disposal and other areas of operations, and monitors their implementation.

The purview of the Board of Directors is determined in the Charter and clearly separated from that of the Company’s executive governing bodies that manage its day-to-day operations.

One of the most crucial functions of the Board of Directors is to form effective executive bodies and supervise their activities. The Board of Directors monitors the activities of the executive bodies and regularly reviews reports on the implementation of the Company’s strategy and business plans. The purview of the Board of Directors includes the election and motivation of the executive bodies as well as the termination of their powers.

The Board of Directors approves the internal control and risk management policy and supports the operation of the risk management and internal control systems. The Board of Directors is responsible for managing the Company’s key risks that impact the achievement of its strategic goals.

The Board of Directors monitors improvements in the corporate governance system and practices at the Company and reviews reports on the implementation of an action programme to improve corporate governance on an annual basis.

Taking into account the strategic importance of the challenges facing the Board of Directors, the Board members must have the confidence of shareholders and ensure the duties entrusted to them are performed in the most efficient manner possible.

The main functions of the Chairman of the Board of Directors are specified by the Charter, Regulation on the Board of Directors and Code of Corporate Governance and include:

■ organizing the work of the Board of Directors;  ■ ensuring an open discussion of agenda items and taking into account the opinions of all members of the Board of Directors;  ■ identifying key items that should be considered by the Board of Directors and selecting the optimal meeting form to discuss the items;  ■ representing the Board of Directors in relations with shareholders, management and other stakeholders;  ■ preparing proposals to distribute tasks among members and committees of the Board of Directors.
The purview and work procedure of the Board of Directors and existing corporate procedures allow for adopting decisions on a substantial portion of items with a simple majority of votes by members of the Board of Directors. At the same time, the Chairman of the Board of Directors takes into account the opinion of each member of the Board of Directors during the discussion of agenda issues and takes measures to achieve a common opinion on key items.

The Chairman of the Board of Directors in 2017 was non-executive director Alexey Miller, who is not a member of any committees under the Board of Directors. The concurrent participation by Chairman of the Board of Directors Alexey Miller in the work of the boards of directors of other companies and his performance of official duties as Chairman of the Gazprom PJSC Management Board in the Company’s view has not in any way affected his effectiveness in performing his functions and duties on the Gazprom Neft PJSC Board of Directors.

The structure of the Company’s Board of Directors ensures the duties entrusted to it are performed in the most efficient manner possible. The Board of Directors is elected with 13 members. In accordance with the share capital structure (95.68% of the total common shares belong to Gazprom PJSC), the vast majority of members of the Gazprom Neft PJSC Board of Directors are elected upon recommendation by the controlling shareholder – Gazprom PJSC. Of the 13 members of the Board of Directors, ten are non-executive directors who are representatives of the main shareholder, two are independent directors, and one is the Company’s executive director. Gazprom Neft focuses on the criteria for independence enshrined in the Code of Corporate Governance of the Central Bank of the Russian Federation.
The Board of Directors is balanced in terms of its members possessing the key skills that are essential for effective work and their continued work on the Board. The members of the Board of Directors have skills in strategic management, corporate governance, corporate finance, risk management and accounting as well as knowledge specific to certain areas of the Company’s business.

The existing structure of the Board of Directors ensures it has an appropriate level of independence from Company management to provide proper control over the latter’s work. Gazprom Neft has a transparent procedure for electing members of the Board of Directors, specifically:

- The Company provides shareholders with two months to nominate candidates for the Board of Directors (legislation stipulates one month);
- The Company discloses information about the current members of the Board of Directors and candidates for the Board of Directors in advance;
- The Company regularly interacts with the depository bank that issues depository receipts;
- The Company employs the principle of cumulative voting for the election of members of the Board of Directors and explains its procedures;
- The Company announces the voting results on matters with an indication of the quorum and the persons who voted for each option;
- The Company publishes minutes of the General Meetings of Shareholders on its official website.

All members of the Company’s Board of Directors have a solid professional reputation, substantial experience working at the Company and regularly interact with Company management, its structural units as well as the registrar and auditor in the performance of their functions.

The Board of Directors is balanced in terms of age with directors aged 40 to 60 making up 77% of the Board members.

### BALANCE OF THE BOARD OF DIRECTORS BY AGE

*Source: Company data*

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Number of Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under age 45</td>
<td>3</td>
</tr>
<tr>
<td>Age 46–55</td>
<td>5</td>
</tr>
<tr>
<td>Age 56–65</td>
<td>3</td>
</tr>
<tr>
<td>Age 66 and older</td>
<td>2</td>
</tr>
</tbody>
</table>

### BALANCE OF THE BOARD OF DIRECTORS BY TYPE OF DIRECTOR

<table>
<thead>
<tr>
<th>Name</th>
<th>Non-executive</th>
<th>Independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.B. Miller</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V.A. Golubev</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.Y. Kruglov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N.N. Dubik</td>
<td></td>
<td></td>
</tr>
<tr>
<td>K.G. Seleznev</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.V. Dyukov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V.I. Alisov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V.V. Cherepanov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.L. Sereda</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.A. Fursenko</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y.V. Mikhailova</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V.P. Serdyukov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.M. Garayev</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The number of members of the Board of Directors is optimal for the Company’s current goals, objectives and industry practices and allows for ensuring the necessary balance of competence among members of the Board of Directors.

The concurrent participation by members of the Board of Directors in the work of the boards of directors of other companies has not in any way affected their effectiveness in performing their functions and duties on the Gazprom Neft PJSC Board of Directors.

Members of the Board of Directors are elected via a transparent procedure that enables shareholders to obtain sufficient information about candidates so that they can form an opinion on their personal and professional qualities. Information about candidates for the Board of Directors is conveyed to stakeholders via the publishing of a material event immediately after the minutes are compiled for the meeting of the Board of Directors at which this issue was considered. Comprehensive information about the candidates is subsequently published on the Company’s website in Russian and English 30 days prior to the General Meeting of Shareholders at which the election of the Board of Directors is on the agenda.
<table>
<thead>
<tr>
<th>Interest in charter capital (as of 31 December 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does not own company shares</td>
</tr>
</tbody>
</table>

### Members of the Board of Directors as of 31 December 2017

#### Alexey Borisovich Miller
**Chairman of the Board of Directors**

**Biographical Information**
Graduated from Voznesensky Leningrad Institute of Finance and Economics.  
2001 – Chairman of the Management Board of Gazprom PJSC.  
2002 – Deputy Chairman of the Board of Directors of Gazprom PJSC.  
Candidate of economic sciences.

**Positions Held at Other Organizations:**
- 2003 – Chairman of the Board of Directors of Gazprombank JSC;  
- 2003 – Chairman of the Board of Directors of SOGAZ JSC;  
- 2007 – Chairman of the Board of Gazprom-Media Holding JSC;  
- 2008 – President of the Board of Directors of Shtokman Development AG;  
- 2010 – Chairman of the Supervisory Board of Gazprom Neft International S.A.;  
- 2012 – Chairman of the Board of Directors of Russian Hippodromes OJSC;  
- 2012 – Member of the Board of Trustees at the Higher School of Management of the St. Petersburg State University Federal State Budget Educational Institution of Higher Education;  
- 2012 – Member of the Board of Trustees of the Russian Geographical Society Ali-Russian Public Organization;  
- 2012 – Member of the Board of Trustees of the Charitable Foundation for the Restoration of the Resurrection New Jerusalem Stauropegic Monastery of the Russian Orthodox Church;  
- 2012 – Member of the Board of Trustees of the Association of Lawyers of Russia Ali-Russian Public Organization;  
- 2013 – Member of the Supervisory Board of the Global Energy Association for the Development of International Research and Energy Projects;  
- 2013 – President and Chairman of the Board of the New Gas Industry Technologies Association of Equipment Manufacturers;  
- 2013 – Member of the Board of Trustees of Lomonosov Moscow State University Federal State Budget Educational Institution of Higher Professional Education;  
- 2013 – Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs National Association of Employers;  
- 2013 – First Deputy Chairman of the Board of Trustees of the Russian Cycling Federation National Public Organization;  
- 2014 – Chairman of the Board of Trustees of the St. Petersburg State University of Economics Federal State Budget Educational Institution of Higher Education;  
- 2014 – Member of the Board of Trustees of the Connection Deafblind Support Charitable Foundation;  
- 2015 – Member of the Board of Trustees of the Russian Academy of Education Federal State Budgetary Institution;  
- 2016 – President, Chairman of the Board, and Chairman of the Presidium of the International Business Congress (IBC);  
- 2017 – Member of the Board of Trustees of National Research University Higher School of Economics Federal State Autonomous Educational Institution of Higher Education;  
- 2017 – Member of the Board of Trustees of the Doctors, Innovations, and Science for Children Foundation for Support and Development in Paediatric Haematology, Oncology, and Immunology.

<table>
<thead>
<tr>
<th>Interest in charter capital (as of 31 December 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does not own company shares</td>
</tr>
</tbody>
</table>

#### Valery Alexandro维奇 Golubev
**Member of the Audit Committee of the Board of Directors**

**Biographical Information**
Born in 1952.  
Graduated from Ulyanov (Lenin) Leningrad Electrotechnical Institute and the Academy of National Economy under the Government of the Russian Federation.  
2006 – Deputy Chairman of the Management Board of PJSC Gazprom.  
Candidate of economic sciences.

**Positions Held at Other Organizations:**
- 2005 – Chairman and Member of the Board of Directors of Volgogradneftemash OJSC;  
- 2006 – First Vice President and Member of the Supervisory Board of Russian Gas Company Union of Oil and Gas Industry Organizations;  
- 2006 – Member of the Supervisory Board of KazRosGaz LLP;  
- 2007 – Chairman of the Supervisory Board of Moldovagaz JSC;  
- 2007 – Member of the Board of Participants of International Consortium for the Management and Development of the Gas Transportation System of Ukraine LLC;  
- 2007 – Member of the Board of Directors of Mosenergo PJSC;  
- 2009 – Co-chairman of the Supervisory Board for PSAs and Member of the Board of Directors of Sakhalin Energy Investment Company Ltd;  
- 2009 – Member of the Board of Directors of Gazprom Investproekt LLC;  
- 2009 – Member of the Board of Directors of Gazprom-South Ossetia OJSC;  
- 2012 – Member of the Supervisory Board of Gazprom Neft Finance B.V.
Biographical information
Born in 1969.
Graduated from the Saint Petersburg Technological Institute of the Refrigerating Industry.
2004 – Deputy Chairman of the Management Board of Gazprom PJSC.
2004-2015 – Head of the Department of Finance and Economics of Gazprom PJSC.
Doctor of economic sciences.

Positions held at other organizations:
- 2003 – Chairman of the Board of Directors of Belgazprombank OJSC;
- 2003 – Member of the Board of Directors of GPB Bank (JSC);
- 2004 – Member of the Board of Directors of Vostokgazprom OJSC;
- 2004 – Member of the Board of Directors of Tomskgazprom OJSC;
- 2006 – Member of the Board of Directors of SOGAZ JSC;
- 2009 – Chairman of the Supervisory Board of Gazprom EP International B.V.;
- 2010 – Deputy Chairman of the Board of Directors of Overgaz Inc. JSC;
- 2010 – Member of the Supervisory Board of Gazprom Neft Finance B.V.;
- 2012 – Member of the Board of the Charitable Foundation for the Restoration of the Resurrection New Jerusalem Stauropegic Monastery of the Russian Orthodox Church;
- 2016 – Member of the Board of Trustees of the International Foundation for the Unity of Orthodox Peoples;
- 2016 – Member of the Presidium of the International Business Congress (IBC).

Biographical information
Born in 1967.
Graduated from Order of Lenin Leningrad Shipbuilding Institute.
2007 – Chairman of the Management Board and CEO of Gazprom Neft PJSC.

Positions held at other organizations:
- 2005 – Member and Deputy Chairman of the Board of Directors of Sibur Holding PJSC;
- 2007 – Member and Chairman of the Board of Directors of Lakhta Centre Multifunctional Complex JSC;
- 2008 – Chairman of the Board of Directors of Football Club Zenit JSC;
- 2008 – Member of the Board of Trustees of St. Petersburg Mining University Federal State Budget Educational Institution of Higher Education;
- 2009 – Member of the Board of Directors of National Oil Consortium LLC;
- 2010 – Member of the Board of Directors of Hockey Club SKA LLC;
- 2010 – Member of the Board of Trustees of the Russian Geographical Society National Public Organization;
- 2012 – Member of the Board of Directors of Hockey City LLC;
- 2013 – Member of the Management Board and Chairman of the Industrial Safety Committee of the Russian Union of Industrialists and Entrepreneurs National Public Organization;
- 2014 – Member of the Presidium of the Regional Sports Federation of Football of St. Petersburg Public Organization;
- 2014 – Member of the Executive Committee and Chairman of the Committee on Programmes for the Development of Football of the Russian Football Union National Public Organization;
- 2015 – Member of the Board of Trustees of the National Intellectual Development Foundation for Support of Scientific and Project Activities of Students, Postgraduates, and Young Scientists;
- 2015 – Member of the Board of Trustees of Gubkin Russian State University of Oil and Gas;
- 2017 – Chairman of the Board of Directors of Zenit Basketball Club LLC.
MEMBERS OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2017

**Kirill Gennadyevich Seleznev**

*Chairman of the Board of Directors*

**Biographical information**

Born in 1974.
Graduated from Ustinov Baltic State Technical University and Saint Petersburg State University.
Candidate of economic sciences.
2002 – Member of the Board of Directors of Gazprom PJSC.
2003 – CEO of Gazprom Mezhregiogaz LLC.

**Positions held at other organizations:**
- 2003 – Member and Chairman of the Board of Directors of Latvijas Gāze JSC;
- 2003 – Member of the Supervisory Board of KazRosGaz LPP;
- 2003 – Member of the Board of Directors of Vostokgazprom OJSC;
- 2004 – Member of the Board of Directors of Tomskgazprom OJSC;
- 2006 – Member of the Board of Directors of Football Club Zenit JSC;
- 2006 – Member of the Supervisory Board of Russian Gas Company Union of Oil and Gas Industry Organizations;
- 2007 – Chairman of the Board of Directors of Mosenergo PJSC;
- 2008 – Chairman of the Board of Directors of Territorial Generating Company No. 1 PJSC;
- 2010 – Member of the Board of Directors of GPB Bank (JSC);
- 2011 – Member of the Board of Directors of Rossiya Bank JSC;
- 2011 – Member of the Supervisory Board of Gazprom Neft Finance B.V.;
- 2013 – Member of the Supervisory Board of Russian Regional Development Bank JSC;
- 2017 – Member of the Board of Directors of RusGazAlliance LLC.

**Interest in charter capital (as of 31 December 2017)**

Does not own company shares

---

**Mikhail Leonidovich Sereda**

*Chairman of the Audit Committee of the Board of Directors*

**Biographical information**

Born in 1970.
Graduated from Saint Petersburg State University of Economics and Finance.
2002 – Deputy Chairman of the Management Board and Head of the Administration of the Management Board of Gazprom PJSC.
2004 – Deputy Chairman of the Board of Directors of Gazprom PJSC.

**Positions held at other organizations:**
- 2002 – Member of the Board of Directors of WIEH GmbH and Co KG;
- 2002 – Member of the Advisory Board of Wingas GmbH;
- 2002 – Member and Chairman of the Board of Directors of Gazprom (U.K.) Limited;
- 2002 – Member of the Board of Directors and Deputy Chairman of GPB Bank JSC;
- 2002 – Member and Chairman of the Board of Directors of Vostokgazprom OJSC;
- 2003 – Member of the Management Board of Panrusgaz CJSC;
- 2003 – Member and Chairman of the Board of Directors of Gazprom Centreenergogaz JSC;
- 2004 – Chairman of the Board of Directors of Tomskgazprom OJSC;
- 2005 – Member and Chairman of the Board of Directors of Gazpromtrubinvest OJSC;
- 2007 – Member of the Board of Directors of Gazprom Cosmic Systems OJSC;
- 2012 – Chairman of the Management Board of Sokhna Housing Owners Partnership;
- 2015 – Member and Chairman of the Board of Directors of Gazprom Marketing & Trading Limited;
- 2015 – Member of the Board of Directors of Gazprom Marketing & Trading Singapore Ltd;
- 2015 – Member of the Board of Directors of Gazprom Global LNG;
- 2015 – President of the Administrative Board of Gazprom Schweiz AG;
- 2016 – Managing Director of Gazprom Germany GmbH;
- 2016 – Member and Chairman of the Supervisory Board of Gazprom Austria GmbH;
- 2016 – Member of the Advisory Board of WIBG GmbH;
- 2016 – Member of the Presidium of International Business Congress (IBC);
- 2016 – Member of the Administrative Board of Gazprom Marketing and Trading Switzerland AG;
- 2016 – Member of the Advisory Board of WIGA Transport Beteiligungs-GmbH & Co. KG;
- 2017 – Member and Chairman of the Board of Directors of Gazprom Transservice LLC.

**Interest in charter capital (as of 31 December 2017)**

Does not own company shares
Biographical information
Born in 1971.
Graduated from Lomonosov Moscow State University.
2008-2017 – Department Head and Member of the Management Board at Gazprom PJSC; in charge of legal issues.
2017 – First Deputy CEO of Gazprom Export LLC.
Honoured Lawyer of the Russian Federation.

Nikolay Nikolayevich Dubik
Member of the Audit Committee, Chairman of the Human Resources and Remuneration Committee of the Board of Directors

Positions held at other organizations:
- 2008 – Member of the Supervisory Board of Moldovagaz JSC;
- 2008 – Member of the Supervisory Board of EuroPoliGaz JSC;
- 2008 – Member of the Board of Directors of Lazurnaya LLC;
- 2008 – Member of the Board of Directors of Gazprom-Media Holding JSC;
- 2008 – Member of the Board of Directors of Shtokman Development AG;
- 2009 – Member of the Supervisory Board of Gazprom Transgaz Belarus OJSC;
- 2010 – Member of the Supervisory Board of Gazprom Neft International S.A.;
- 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;
- 2013 – Member of the Board of Directors of Latvijas Gāze JSC;
- 2015 – Member of the Board of Directors of Gazprom Marketing & Trading Ltd;
- 2016 – Managing Director of GAZPROM Germania GmbH;
- 2016 – Member of the Board of Directors of Gazprom Marketing & Trading Singapore PTE Ltd.;
- 2016 – Member of the Administrative Board of Gazprom Marketing & Trading Switzerland;
- 2016 – Member of the Board of Directors of Gazprom Global LNG Ltd.;
- 2016 – Member of the Administrative Board of Gazprom Austria GmbH.

Elena Vladimirovna Mikhailova

Biographical information
Born in 1977.
Graduated from Moscow State Industrial University with a major in law and earned a Master’s Degree in Business Administration from the Academy of National Economy under the Government of the Russian Federation.
2011 – Department Head at Gazprom PJSC; in charge of property management and corporate relations.
2003 – Deputy CEO for Corporate and Property Relations (concurrently) of Gazprom Mezhregiongaz LLC.
2012 – Member of the Management Board of Gazprom PJSC.

Positions held at other organizations:
- 2012 – Member of the Board of Directors of Mosenergo PJSC;
- 2012 – Member of the Board of Directors of Severnet/gazprom OJSC;
- 2012 – Member of the Board of Directors of Leader CJSC;
- 2012 – Member of the Board of Directors of Gazprom Gas Engine Fuel LLC;
- 2013 – Member of the Board of Latvijas Gāze JSC;
- 2016 – Member of the Board of GAZFOND Private Pension Fund;
- 2017 – Member of the Supervisory Board of Zenit-St. Petersburg Volleyball Club Autonomous Non-profit Organization.

Interest in charter capital (as of 31 December 2017)
Does not own company shares
MEMBERS OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2017

Vladimir Ivanovich Alisov

Biographical information
Born in 1960.
Graduated from the Legal Department of Zhdanov Leningrad State University.
2008 – First Deputy Department Head at Gazprom PJSC; handles legal issues.
Member of the Russian Association of Lawyers and member of the Corporate Governance Expert Council under the Russian Federal Financial Markets Service.
2010 – Granted the title of Honoured Lawyer of the Russian Federation under a decree from the President of the Russian Federation.

Positions held at other organizations:
2010 – Member of the Board of Directors of Kamchatgazprom OJSC;
2008 – Member of the Board of Directors of Daltransgaz OJSC;
2016 – Member of the Board of Directors of DRAGA JSC.

Interest in charter capital (as of 31 December 2017)
Does not own company shares

Vsevolod Vladimirovich Cherepanov

Member of the Human Resources and Remuneration Committee of the Board of Directors

Biographical information
Born in 1966.
Graduated from Lomonosov Moscow State University.
2010 – Member of the Management Board and Department Head at Gazprom PJSC; in charge of gas, gas condensate, and oil production.
Candidate of geological and mineral sciences.

Positions held at other organizations:
2010 – Chairman of the Board of Directors of Achimgaz AG;
2010 – Member of the Supervisory Board of Wintershall AG;
2010 – Member of the Board of Directors of Shтокман Development AG;
2010 – Member of the Board of Directors of Severneftegazprom OJSC;
2010 – Member of the Supervisory Board of Gazprom EP International B.V.;
2011 – Chairman of the Board of Directors of Gazpromvet LLC;
2011 – Member of the Board of Directors (Non-executive Director) of Sakhalin Energy Investment Company Ltd.;
2012 – Chairman of the Board of Directors of Gazpromneft-Sakhalin LLC;
2013 – Member of the New Technologies of the Gas Industry Association of Equipment Manufacturers;
2014 – Member of the Board of Directors of Gazprom Kyrgyzstan LLC;
2016 – Chairman of the Board of Directors of Achim Development LLC;
2017 – Chairman of the Board of Directors of RusGazAlliance LLC.

Interest in charter capital (as of 31 December 2017)
Does not own company shares

BOARD OF DIRECTORS IN 2017

- The current Board of Directors as of 31 December 2017 was elected at the annual General Meeting of Shareholders on 9 June 2017 (Minutes № 0101/01 dated 14 June 2017).
- There were no changes to the Company’s Board of Directors in 2017. All standing members of the Company’s Board of Directors were re-elected for the following corporate year of 2017–2018 at the General Annual Meeting of Shareholders.
- Apart from Alexander Dyukov, the chairman and members of the Board of Directors did not own any Company shares during the reporting period. No members of the Board of Directors concluded any transactions for the acquisition or alienation of any Company shares during the reporting year.
- No claims were filed against members of the Board of Directors in 2017.
Valery Pavlovich Serdyukov  
Independent Director

Biographical information
Born in 1945.
Graduated from Plekhanov Leningrad Mining Institute.

1999–2012 – Governor of the Leningrad Region.
Candidate of economic sciences.
Holder of government and industry-based awards.

Sergey Alexandrovich Fursenko  
Member of the Human Resources and Remuneration Committee of the Board of Directors and Independent Director

Biographical information
Born in 1954.
Graduated from Leningrad Polytechnic Institute.

Positions held at other organizations:
- 2012 – Chairman and Member of the Board of Directors of Gazprom Gas Engine Fuel LLC;
- 2012 – Member of the Presidential Council on the Development of Physical Education and Sport.
- 2017 – President and Member of the Board of Directors of Football Club Zenit JSC;
- 2017 – Member of the Board of Directors of Basketball Club Zenit LLC;
- 2018 – Member of the Executive Committee of the European Club Association (ECA).

Marat Marselevich Garayev

Biographical information
Graduated from Saint Petersburg State University of Economics and Finance with a degree in economics.
2002–2014 – Deputy Head of the Gas and Liquid Hydrocarbons Marketing and Refining Department and Head of the Industrial Products Marketing Office at Gazprom PJSC.
2014–2016 – First Deputy Head of the Gas and Liquid Hydrocarbons Marketing and Refining Department at Gazprom PJSC.
2016 – CEO of Gazprom Refining LLC.

Positions held at other organizations:
- 2008 – Member of the Management Board at KazRosGaz LLP;
- 2010 – Member of the Board of Directors of Kazanorgsintez OJSC.
- 2015 – Chairman of the Board of Directors of Metaclay JSC;
- 2016 – Member of the Management Board of Gazprom Neftekhim Salavat LLC.

Interest in charter capital (as of 31 December 2017)

Does not own company shares
SECRETARY OF THE BOARD OF DIRECTORS

The Secretary of the Board of Directors handles effective regular interaction with shareholders and the coordination of the Company’s actions to protect the rights and interests of shareholders, and also supports the effective work of the Board of the Directors.

The main tasks of the Secretary of the Board of Directors are: to ensure the Company’s governing bodies and officials comply with the corporate governance rules and procedures prescribed by the laws of the Russian Federation and the Company’s Charter and internal documents; to prepare for and hold the General Meeting of Shareholders and meetings of the Board of Directors and its committees; to disclose information about the Company; and to improve corporate governance practices.

The main functions of the Secretary of the Board of Directors include:

- organizational and information support for the work of the Board of Directors and its committees;
- preparing for and holding General Meetings of Shareholders;
- providing assistance to the Chairman of the Board of Directors in organizing and planning the work of the Board of Directors;
- organizing the storage of documents of the Board of Directors;
- monitoring the implementation of the decisions of the Board of Directors;
- interaction with members of the Board of Directors, consulting members of the Board of Directors on corporate governance matters and the provision of the necessary documents and information to members of the Board of Directors;
- ensuring the disclosure of information about the Company;
- organizing interaction between the Company and its shareholders;
- performing other functions in accordance with the Regulation on the Board of Directors, the Company’s internal documents and the instructions of the Chairman of the Board of Directors.

The Secretary of the Board of Directors has knowledge, experience, and qualifications that are sufficient to perform the duties entrusted to him as well as an impeccable professional reputation, systematically upgrades his skills, and is also active in the professional community. Dvortsov has held top places in the ratings of corporate governance directors in the fuel and energy sector for several years according to Kommersant Publishing House and the Association of Managers (18th place in the Top 1,000 Russian Managers rating). In addition, Dvortsov ranked among the 25 Best Corporate Governance Directors / Corporate Secretaries for 2016 according to the assessment of the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs in a partnership with PwC and the Moscow Exchange.

The Secretary of the Board of Directors is appointed by the Board of Directors based on the recommendation of the Chairman of the Board of Directors in an effort to ensure independence.

The Secretary of the Board of Directors is not the secretary of the Management Board.

The work procedure of the Secretary of the Board of Directors is regulated by the Regulation on the Board of Directors of Gazprom Neft PJSC.

---

1 — Detailed information about the rating is available at the website http://www.kommersant.ru/
REPORT ON PRIORITY WORK PERFORMED BY THE GAZPROM NEFT PJSC BOARD OF DIRECTORS IN 2017

In the course of its work, the Board of Directors consistently implemented the main objectives in the priority areas of activities of Gazprom Neft PJSC, including strategic development, increasing investment appeal, ensuring effective monitoring of the administration of assets, investment, financial and economic activities, enhancing the effectiveness and transparency of internal management mechanisms and improving the monitoring and accountability system of the Company’s management bodies.

The Gazprom Neft PJSC Board of Directors performed activities on the basis of approved semi-annual work plans. A total of 57 meetings were held in 2017.

STATISTICS ON THE NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS IN 2013–2017
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>59</td>
<td>65</td>
<td>68</td>
<td>59</td>
<td>57</td>
</tr>
</tbody>
</table>

- In person: 8, 9, 9, 8, 9
- In absentia: 51, 56, 59, 51, 48

STATISTICS ON THE PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS IN 2017
With rare exceptions, all members of the Board of Directors took part in meetings of the Board of Directors. Alexander Dyukov did not take part in a number of meetings at which related party transactions were considered.

PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS IN 2017

<table>
<thead>
<tr>
<th>Board of Directors Member</th>
<th>Number of meetings attended by the Member of the Board of Directors</th>
<th>Total number of meetings the Member of the Board of Directors could have attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. B. Miller</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>V. A. Golubev</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>A. V. Kruglov</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>N. N. Dubik</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>K. G. Selezev</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>A. V. Dyukov</td>
<td>50</td>
<td>57</td>
</tr>
<tr>
<td>V. I. Alisov</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>V. V. Cherepanov</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>M. L. Sereda</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>S. A. Fursenko</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>E. V. Mikhailova</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>V. P. Serdyukov</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>M. M. Garayev</td>
<td>57</td>
<td>57</td>
</tr>
</tbody>
</table>

3 — Including providing a written opinion.
STRATEGIC DEVELOPMENT

KEY ISSUES: ____________________________________________

■ plans for the development of the international business of Gazprom Neft PJSC;
■ the implementation of the Development Strategy of Gazprom Neft PJSC until 2025;
■ the Resource Base Development Strategy of Gazprom Neft PJSC;
■ an assessment of the impact of EU legal regulation on the activities of Gazprom Neft PJSC;
■ the development programme of Gazprom Neft PJSC on the shelf of the Russian Federation.

In accordance with the recommendations of the Code of Corporate Governance, matters concerning the strategic development and priority areas of activities of Gazprom Neft PJSC are considered at in-person meetings of the Board of Directors.

In 2017, the Board of Directors examined the progress of the implementation of the Gazprom Neft PJSC Development Strategy until 2025. The existing long-term Development Strategy was approved in 2013. The document outlines ways to achieve strategic goals in the main business segments – hydrocarbon production, oil refining, and the sale of petroleum products – taking into account the changing conditions in the industry and the global economy. In addition, the Company’s key objective for the period until 2025 is to increase shareholder value through the effective use of the resource potential and the greater incorporation of oil reserves in development, the establishment of new sources of business growth, and a maximum return on investment in new projects.

The Company developed its business in 2017 in full compliance with the long-term plans and goals set out in the Gazprom Neft PJSC Development Strategy until 2025.

The Gazprom Neft Board of Directors decided to exclude a target benchmark for the volume of oil refining abroad from the Company’s long-term Development Strategy due to changes in the macroeconomic environment: the market situation has seen growing international competition in recent years combined with reduced consumption of petroleum products on the European market, which significantly reduces the return on potential investments in foreign refining.

In addition, the Gazprom Neft Board of Directors considered information in 2017 about the implementation of the Company’s Resource Base Development Strategy. The existing Resource Base Development Strategy was approved by the Board of Directors in May 2016, and its key priority is to ensure Gazprom Neft has the resources to reach and maintain the strategic target of 100 million TOE of production by 2020 as well as ensure proven reserves (category 1P) last for at least 15 years.

The main focuses of the Company’s work to develop its resource base for the next five years remain important. The main goals of Gazprom Neft in this segment are organic and inorganic growth, seeking out opportunities for development in new regions, the Company’s involvement in developing the oil assets of Gazprom PJSC and participation in state auctions and transactions to acquire assets on the market, working with the reserves of the Bazhenov formation, studying other categories of non-conventional reserves, and continuing geological exploration work on the shelf of the Russian Federation.

The Board of Directors considered plans for developing the international business of Gazprom Neft PJSC. At present, the Gazprom Neft PJSC portfolio includes over 20 projects involving the exploration and production of hydrocarbons, oil refining, and the sale of petroleum products outside of Russia. External and internal factors have a significant impact on the Company’s activities and dictate the need for adapting the international development goals of Gazprom Neft PJSC.

The Board of Directors took under advisement an assessment of the impact of EU legal regulation on the activities of Gazprom Neft PJSC. Sudden changes in external conditions caused by the imposition of sanctions proved to be a test of the Company’s strength. The Company turned out to be prepared for this shock, made quick decisions, and managed to minimize losses. Its efforts to develop the ecosystem of suppliers made it possible to generate competition among major foreign contractors and significantly expand the role of Russian partners in the Company’s various businesses and create sources of value growth for the Company. Unique solutions are actively being developed and introduced in different areas of the Company’s operations. At present, the Company views the overall impact of sanctions as unsubstantial and not having a significant impact on its strategy.

The Company developed its business in 2017 in full compliance with the long-term plans and goals set out in the Gazprom Neft PJSC Development Strategy until 2025.
INNOVATIVE ACTIVITIES

KEY ISSUES: __________________________________________

- plans for the development of catalyst production and ensuring the needs of the Gazprom Group;
- the Innovative Development Programme of Gazprom Neft PJSC until 2025;
- the implementation of measures to improve the efficiency of oil field development using innovative technologies;
- priority projects and tools for the technological development of the Exploration and Production Unit of Gazprom Neft PJSC;
- the participation of Gazprom Neft PJSC in the creation of an additional tool to support the Company’s technological development.

In 2017, the Board of Directors devoted special attention to the Company’s technological and innovative development.

The Board of Directors approved the Innovative Development Programme of Gazprom Neft PJSC until 2025.

The Innovative Development Programme until 2025 was drafted on the basis of instructions from the federal executive authorities [Letters of the Ministry of Energy of the Russian Federation No. KM 1685/05 dated 19 February 2016 and No. AT 1882/02 dated 26 February 2016] and approved by the Inter-Agency Technological Development Commission of the Presidium of the Council under the President of the Russian Federation for Russia’s Economic Modernization and Innovative Development (clause II of Minutes No. 8-D01 dated 23 September 2016). The previous Innovative Development Programme until 2020, which was approved by the Board of Directors on 25 March 2013, was discontinued.

The main objective of the innovative development of Gazprom Neft PJSC for the period until 2025 is to overcome technological challenges that prevent the Company from achieving its strategic goals.

The programme also contains information about projects that aim to enhance the efficiency of the system used to develop and introduce technologies – the development of an intellectual property management system, expert support for decision-making, the commercialization of technologies as well as plans for interaction with innovative entities – and the implementation of joint educational programmes and technology development projects.

The Board of Directors approved the Report on the Implementation of the Innovative Development Programme of PJSC Gazprom Neft for 2016, considered measures to improve the efficiency of oil field development using innovative technologies, priority projects and tools for the technological development of the Exploration and Production Unit, and the involvement of Gazprom Neft PJSC in the creation of an additional tool to support the Company’s technological development.

FINANCIAL AND ECONOMIC ACTIVITIES AND RISK MANAGEMENT

KEY ISSUES: __________________________________________

- the debt structure and management of the debt portfolio of the Gazprom Neft Group in 2016 and proposals for its optimization in 2017;
- measures taken to increase profitability and reduce operating costs at the refineries of Gazprom Neft PJSC;
- the effectiveness of the optimization planning tools used in the operational and long-term planning of the refining and sales of Gazprom Neft PJSC;
- the effectiveness of sales of Gazprom Neft PJSC products on foreign markets;
- the opportunities, prospects, and comparative efficiency of oil and gas condensate refining using the facilities of Gazprom Neft PJSC taking into account changes in tax and customs legislation;
- measures carried out by Gazprom Neft PJSC to minimize the proportion of import procurements;
- the risk management system at Gazprom Neft PJSC and the results of the assessment and updating of key risks based on the results of 2016 and the first half of 2017;
- the implementation of the Investment Programme, the Budget (financial plan), and the Financial Borrowing Programme of the Gazprom Neft Group for 2016 based on the Company’s performance results in 2016;
- the approval of the Exchange Bonds Programme of Gazprom Neft PJSC;
- the operational efficiency of Gazpromneft-BM LLC;
- the progress and effectiveness of the implementation of the Budget and Investment Programme of the Gazprom Neft Group for 2017 based on the Company’s performance results in the first half of 2017;
- the main results of the production activities of the Gazprom Neft PJSC Refining Unit in 2016 and the measures taken to reduce the Unit’s operating costs in 2016 as well as the prospects for refining raw materials taking into account the existing raw materials base and its quality indicators;
- the preliminary results of the implementation of the Gazprom Neft Group’s Investment Programme and Budget for 2017.
The Gazprom Neft PJSC Board of Directors devotes significant attention to monitoring the financial, economic, and investment activities of the Gazprom Neft Group.

In 2017, the Board of Directors examined issues related to the debt structure and management of the debt portfolio of the Gazprom Neft Group, measures taken to increase profitability and reduce operating costs at the refineries of Gazprom Neft PJSC, the effectiveness of the optimization planning tools used in the operational and long-term planning of the refining and sales of Gazprom Neft PJSC, the effectiveness of sales of Gazprom Neft PJSC products on foreign markets, the opportunities, prospects, and comparative efficiency of oil and gas condensate refining using the facilities of Gazprom Neft PJSC taking into account changes in tax and customs legislation, measures carried out by Gazprom Neft PJSC to minimize the proportion of import procurements, the main results of the production activities of the Gazprom Neft PJSC Refining Unit in 2016 and the measures taken to reduce the Unit’s operating costs in 2016 as well as the prospects for refining raw materials taking into account the existing raw materials base and its quality indicators.


During the reporting year, the Board of Directors conducted an assessment of the effectiveness of the Company’s risk management and internal control system.

Over the course of 2017, information was reviewed during in-person meetings of the Board of Directors about the risk management system employed by Gazprom Neft PJSC as well as the results of assessment and the updating of the key risks based on the results of 2016 and the first half of 2017.

The key risks of Gazprom Neft PJSC for 2017 were approved by the decision of the Management Board and submitted to the Board of Directors for consideration in March 2017.

The procedure used to update the Company’s risks is implemented in accordance with the requirements of regulatory and methodological documentation governing the functioning of the Integrated Risk Management System (hereinafter the IRMS) on a bottom-up basis, starting at the level of the Company’s subsidiaries.

The Company’s subsidiaries conduct a risk reassessment, develop risk management measures, and endorse risk registers with the operational services and supervising relevant divisions at the Company’s Corporate Centre. The most significant risks faced by subsidiaries are consolidated in the risk registers of the Units based on which a draft register of the Company’s key risks approved by the Company’s Management Board is subsequently generated.

To improve the quality of information about risks, the Company is implementing initiatives to develop tools and methods used to identify and assess risks as well as enhancing the level of human resources competencies in risk management.

The primary focus in the development of tools and methods to identify and assess risks in 2017 was the further integration of the IRMS with planning processes [strategic planning, business planning, and investment planning]. The level of human resources competence in risk management is enhanced by creating models of professional competencies as well as developing and conducting the relevant training programmes in matters concerning risk management (for example, approximately 4,000 of the Company’s employees took an interactive Basics of Risk Management training course in 2017).

In 2017, updates were made to the most significant risks faced by the production units as part of a summary of the implementation of the Company’s business plan for the first half of 2017.

In addition, the risk monitoring process was carried out in 2017 in accordance with the requirements of the fundamental standard Integrated Risk Management System (IRMS) using the Company’s Risk Management Information System.

As a result of the update, the Company’s key risks remained at the previous level.

The Board of Directors also considered the concept of determining the Company’s maximum permissible level of risk.

The concept describes the methodological aspects of its implementation and functioning, including the relationship between the acceptable level of risk and the Company’s targets, the methods for determining the acceptable level of risk at various levels of management, and the approach to cascading the acceptable level of risk from the Company’s level to that of its subsidiaries.

In an effort to improve the effectiveness of the internal control system and improve corporate governance at Gazprom Neft PJSC, the Board of Directors in February 2017 approved the Internal Control Policy of Gazprom Neft PJSC, which is the main internal control document.
that defines the goals, tasks, components, and principles for the organization and functioning of the Company’s internal control system.

Information on the effectiveness of the internal control system is provided to shareholders within the Company’s Annual Report and also in the Gazprom Neft PJSC Internal Audit Department’s report on the results of its activities.

SOCIAL ACTIVITIES, INDUSTRIAL SAFETY, AND THE ENVIRONMENT

KEY ISSUES: ________________________________

- the target environmental indicators of Gazprom Neft PJSC for 2017-2019;
- the implementation of the Programme for the Utilization and Improved Efficiency of the Use of Associated Petroleum Gas based on operational results in the first half of 2017 and the long-term plans for 2018-2020;
- the approval of the Annual Bonus Policy for employees of the Gazprom Neft Group.

In 2017, the Board of Directors considered the issue of the Company’s targeted environmental indicators for 2017-2019. Gazprom Neft PJSC developed targeted environmental indicators that take into account specific aspects of its production activities (extraction, processing, and marketing), the Company’s development plans as well as activities that aim to mitigate its negative environmental impact, including:

- a reduction in specific indicators for emissions of harmful (polluting) substances into the atmosphere;
- a reduction in specific greenhouse gas emissions into the atmosphere;
- a reduction in the discharge of contaminated and insufficiently treated wastewater into the terrain, surface water bodies, and centralized water disposal systems;
- an increase in the proportion of waste sent off for disposal and utilization;
- a reduction in the proportion of payments exceeding the establishment limits in the total amount for negative environmental impact;
- an increase in the level of APG utilization.

The Board of Directors also considered the implementation of the Programme for the Utilization and Improved Efficiency of the Use of Associated Petroleum Gas based on operational results in the first half of 2017 and the long-term plans for 2018-2020. Gas projects were implemented at assets with developed gas infrastructure in 2010–2017 which made it possible to achieve a high level of APG utilization – 90.1% in 2017. This includes the launch of the South Priobsky Gas Refinery at Gazpromneft-Khantos LLC and the Yety-Purovskaya compressor station at Gazpromneft-Muravlenko. A gas pipeline was put into operation, and the compressor station at Gazpromneft-Orenburg LLC is currently being prepared for commissioning. The implementation of the Urmano-Archa project at Gazpromneft-Vostok LLC is under way and the project is to be launched in late 2019. These projects will ensure a level of APG utilization of 95% or more at core portfolio assets in 2020. In addition, a main priority for achieving a 95% APG utilization level in 2020 is to manage the utilization rate at new assets, primarily those with a high gas factor.

In terms of the social aspect of the Company’s activities, the Board of Directors approved the Annual Bonus Policy for employees of the Gazprom Neft Group. The policy was drafted in order to improve the effectiveness of the employee material incentive system so that they achieve annual targets and, as a result, the Company’s strategic goals. It will serve as the primary document with respect to annual bonuses and define the goals, principles, components, procedure, and conditions of the annual bonus system for employees of the Company and its subsidiaries.

CORPORATE GOVERNANCE

KEY ISSUES: ________________________________

- the approval of the Internal Control Policy of Gazprom Neft PJSC;
- the results of the activities of the Gazprom Neft PJSC Internal Audit Department for 2016 and the first half of 2017;
- the status of the legal protection of the intellectual property of Gazprom Neft PJSC;
- the approval of the new version of the Regulation on the Information Policy of Gazprom Neft PJSC;
- the approval of the new version of the Regulation on Insider Information of Gazprom Neft PJSC;
- the approval of the participation of members of the Gazprom Neft PJSC Management Board in the management bodies of organizations;
- the approval of the Internal Audit Policy of Gazprom Neft PJSC;
- the members of the Gazprom Neft PJSC Management Board.

Pursuant to the recommendations of the Corporate Governance Code, the members of the Board of Directors annually review an assessment of corporate governance at the Company and conduct a self-evaluation of their own activities on the Board of Directors.
In 2017, the Board of Directors approved the following internal documents:
- The Internal Control Policy of Gazprom Neft PJSC;
- a new version of the Regulation on the Information Policy of Gazprom Neft PJSC;
- a new version of the Regulation on Insider Information of Gazprom Neft PJSC;
- the Internal Audit Policy of Gazprom Neft PJSC.

In December 2017, the Board of Directors terminated the powers of a member of the Gazprom Neft PJSC Management Board ahead of schedule and agreed on the dismissal of Deputy Director General for Organizational Affairs Vitaly Baranov. The size of the Management Board was reduced to 10 people.

In addition, the Board of Directors reviewed preparations for the annual and extraordinary general meetings of shareholders as part of its corporate governance activities.

**COMMITTEES OF THE COMPANY’S BOARD OF DIRECTORS**

Two committees function under the Company’s Board of Directors: the Audit Committee and the Human Resources and Remuneration Committee.

**AUDIT COMMITTEE**

The Audit Committee monitors the Company’s financial and business operations, is elected by the Board of Directors, and functions on the basis of the Charter and internal regulations.

The Audit Committee assists the Board of Directors in monitoring the Company’s financial and business operations by evaluating the effectiveness of the internal control systems, including the mechanisms used to oversee the process of preparing and submitting financial and other reporting as well as its completeness and accuracy, and monitoring the risk management system. The Audit Committee is instrumental in maintaining constructive communication with the external auditor as well as the Company’s financial and business oversight bodies and internal audit units. The Audit Committee’s activities are directly linked to the work plan of the Board of Directors and include the consideration of matters involving financial activities and investment planning.

The members, status, work procedure, purview, and functions of the Committee, the procedure for convening and holding meetings and preparing resolutions as well as the responsibility of Committee members are specified by the Regulation on the Committee.

The Audit Committee is comprised of three non-executive directors (elected by the Board of Directors on 20 June 2017):
- Mikhail Leonidovich Sereda [Chairman];
- Valery Alexandrovich Golubev;
- Nikolay Nikolayevich Dubik.

Given the nature of their duties, Committee members possess the sufficient and relevant financial experience and skills that are required to work with financial reports, analyse business activities, and conduct financial monitoring. The Audit Committee does not include a single representative of the Company’s senior management.

**STATISTICS ON THE NUMBER OF MEETINGS HELD BY THE AUDIT COMMITTEE UNDER THE BOARD OF DIRECTORS**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings</td>
<td>8</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Number of items considered</td>
<td>22</td>
<td>30</td>
<td>34</td>
</tr>
</tbody>
</table>

The Audit Committee held 12 meetings in 2017 and considered the following key items in accordance with the approved work plan:
- the consideration of the consolidated IFRS financial statements of the Gazprom Neft Group for 2016 as well as the first quarter, first half, and nine months of 2017;
- the new form of the audit report for 2016;
- the fulfilment of external audit recommendations concerning the management of information security risks at Gazprom Neft PJSC based on the results of the second half of 2016;
- the results of measures to manage manmade and occupational risks involving industrial safety and labour protection at Gazprom Neft PJSC based on the results of the second half of 2016;
- the results of measures to manage credit risk based on the results of the second half of 2016, including work with problem debts and the write-off of bad debts;
- the results of measures to manage the tax risks of Gazprom Neft PJSC based on the results of the second half of 2016;
- reports on the results of the work performed by the Gazprom Neft PJSC Internal Audit Department;
- the assessment and updating of the key risks faced by Gazprom Neft PJSC based on the results of 2016;
- the programme for the guarantees and improved quality of internal audits of Gazprom Neft PJSC based on the results of 2016;
- review of the final results of the external audit of the Gazprom Neft PJSC Internal Audit Department and the action plan to implement the auditor’s recommendations;
- review of the performance results of the external auditor of Gazprom Neft PJSC for 2016;
The Human Resources and Remuneration Committee is comprised of four non-executive directors (elected by the Board of Directors on 20 June 2017):
- Nikolay Nikolayevich Dubik (Chairman)
- Andrey Vyacheslavovich Kruglov
- Vsevolod Vladimirovich Cherepanov
- Sergey Alexandrovich Fursenko (independent director)

**STATISTICS ON THE NUMBER OF MEETINGS HELD BY THE HUMAN RESOURCES AND REMUNERATION COMMITTEE UNDER THE BOARD OF DIRECTORS**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings</td>
<td>6</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Number of items considered</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

The Committee held six meetings in 2017 and considered the following key items:
- the consideration of proposals from shareholders on the nomination of candidates for election to the Board of Directors and the Audit Commission of Gazprom Neft PJSC;
- the evaluation of candidates for the Board of Directors of Gazprom Neft PJSC;
- remuneration for members of the Board of Directors of Gazprom Neft PJSC;
- remuneration for members of the Audit Commission of Gazprom Neft PJSC;
- the participation of members of the Gazprom Neft PJSC Management Board in the management bodies of other organizations;
- the results of the performance evaluation of the Company’s Board of Directors;
- the members of the Gazprom Neft PJSC Management Board.

During the reporting period, the Committee conducted an evaluation of candidates for the Board of Directors to assess whether they have the necessary experience, knowledge, business reputation, and no conflicts of interest, among other things. In addition, the Human Resources and Remuneration Committee prepared an opinion on the independence of each candidate for the Board of Directors.

In the opinion of the Human Resources and Remuneration Committee, the analysis of the candidates allowed for concluding that:
- The experience and education as well as the knowledge and a high degree of professional training of candidates nominated for the Board of Directors will enable them to fulfil the duties of a member of the Board of Directors and directly contribute to the effective work of the entire Board of Directors in the interests of the Company and its shareholders.
All candidates have an impeccable professional and personal reputation, which implies, among other things, that they have never faced any criminal prosecution in the present or in the past.

- The Board of Directors will include 1 executive director, which is consistent with the recommendations of the Corporate Governance Code.
- The Board of Directors will include 2 independent directors, comprising 15% of the Board members, which is less than the proportion recommended by the Code of Corporate Governance.
- The Board of Directors will be sufficiently balanced in terms of gender and age.

The Committee prepared the appropriate recommendations on matters that require the submission of recommendations to the Board of Directors.

The Committee fully performed the tasks it was assigned over the reporting period.

**PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS**

In accordance with the recommendations of the best corporate governance practices, the Board of Directors conducts an annual analysis and assessment of the effectiveness of its performance by evaluating all the areas of the Board’s activities.

Per the decision of the Board’s Human Resources and Remuneration Committee dated 27 September 2010, the Committee conducts an annual internal assessment of the effectiveness of the activities performed by the Company’s Board of Directors in the form of a survey (questionnaire). The questionnaire includes approximately 30 questions about the main areas of activities: members, work structure, procedures of the Board of Directors and an assessment of the work performed by the Chairman of the Board, Committees and the Secretary of the Board of Directors, the level of interaction within the Board of Directors and other issues.

The analysis of the Board’s performance over the reporting period revealed improvements in the following areas: identification of strategic priorities, interaction with executive management, balanced membership and the functioning of the Committees under the Board of Directors.

In addition, issues falling into zones of development based on the assessment results included the increased awareness of members of the Board of Directors, including the timely provision of information and improvements to communication channels with management and other individuals.

**INDUCTION OF NEW MEMBERS OF THE BOARD OF DIRECTORS**

In order to support the effective work of the Board of Directors, the Human Resources and Remuneration Committee employs the Programme on the Induction of Newly Elected Members of the Board of Directors.

The objectives of the Programme are to introduce newly elected members of the Board of Directors to the Company’s production, financial and business activities and corporate governance practices as quickly and effectively as possible.

The Programme provides for the following measures:

1. A meeting with the Chairman of the Board of Directors and discussion of the Board’s work plan and the priorities in the Company’s activities; determining the future role of each director on the Board in accordance with the director’s professional knowledge and experience.
2. A meeting with representatives of senior management, the provision of basic information about the Company’s activities, discussion of the Company’s operational and financial structure and introduction to the members of the Management Board.
3. Consultations with the Secretary of the Board of Directors: the Secretary shall describe the procedural and legal aspects of the activities performed by the Board of Directors and its committees and explain the rights and duties of Board members, matters concerning the payment of remuneration and compensation as well as their responsibilities and liability insurance.
4. Review of the Company’s main documents, guidelines for Board members and a description of the main business matters, internal procedures and the organizational management of the Board of Directors and its committees.
5. The Programme may also include such measures as visits to the Company’s fixed assets, participation in the Company’s public activities and meetings with key management personnel.

The Human Resources and Remuneration Committee monitors the implementation of the Programme.

No new members were elected to the Board of Directors in 2017.
### MANAGEMENT BOARD AND CEO

The structure of the Gazprom Neft executive bodies is described by the Charter and includes the Management Board and the CEO. The Company’s Management Board is the collective executive body that oversees its day-to-day operations. In accordance with the Charter of Gazprom Neft PJSC, the Management Board is formed by the Board of Directors based on a recommendation by the Company’s CEO. The term of office of the Management Board is also determined by the decision of the Board of Directors. The requirements for the professional qualifications of the Gazprom Neft Management Board members are established by the internal documents of Gazprom Neft PJSC.

Company CEO Alexander Dyukov (who first was the first to run the Company in December 2006 and was re-elected for a second five-year term in December 2016) serves concurrently as the Chairman of the Management Board, whose functional duties include organizing the activities of the Management Board. In the absence of the Management Board Chairman, his functions are performed by one of two Deputy Management Board Chairmen: Vadim Yakovlev (First Deputy) or Anatoly Cherner. A deputy is elected based on a recommendation by the Management Board Chairman by a majority vote of the elected Management Board members. If the Chairman and the deputies are absent, the functions of the Management Board Chairman may be performed by any member of the Management Board based on the decision of the Management Board.

### PURVIEW OF THE COMPANY’S MANAGEMENT BOARD AND CEO

<table>
<thead>
<tr>
<th>Main issues within the purview of the Management Board</th>
<th>Main issues within the purview of the CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>The purview of the Management Board is determined by the Company’s Charter.</td>
<td>The CEO is accountable to the Gazprom Neft PJSC Board of Directors and General Meeting of Shareholders.</td>
</tr>
<tr>
<td>The main functions of the Management Board include organizing the monitoring of the implementation of decisions adopted by the Company’s General Meeting of Shareholders and Board of Directors, the drafting of long-term plans and the main programmes of Gazprom Neft PJSC activities for submission to the Board of Directors, including the Company’s annual budget and investment programmes, the preparation of reports on their implementation as well as the drafting and approval of currentplans for the Company’s activities.</td>
<td>The CEO manages the Company’s day-to-day operations and acts within the purview prescribed by the Gazprom Neft PJSC Charter.</td>
</tr>
<tr>
<td>The Gazprom Neft PJSC Management Board monitors the implementation of the Company’s current and long-term plans and programmes as well as its investment, financial, and other projects.</td>
<td>Main issues of purview:</td>
</tr>
<tr>
<td>The Company’s Management Board drafts proposals for submission to the Board of Directors concerning the participation and discontinuation of the participation of Gazprom Neft PJSC in other organizations (including foreign ones) and the start and termination of the activities of the Company’s branches and representative offices.</td>
<td>- concludes transactions on the Company’s behalf and administers the Company’s property guided by the Company’s internal documents governing the procedure for concluding transactions and the procedure for interaction with business companies and organizations in which the Company owns shares or interests;</td>
</tr>
<tr>
<td>- approves the staff of the Company and its branches and representative offices and determines the form, system, and amount of remuneration;</td>
<td>- approves the Company’s internal documents governing its day-to-day operations;</td>
</tr>
<tr>
<td>- approves the Company’s internal documents governing its day-to-day operations;</td>
<td>- in coordination with the Board of Directors, appoints and dismisses deputy CEOs, the chief accountant, head of the legal service, head of the internal audit (control) department, head of the security service, head of the department in charge of preparing for and holding competitive procurements as well as the heads of the Company’s branches and representative offices;</td>
</tr>
<tr>
<td>- organizes the implementation of the decisions adopted by the Company’s General Meeting of Shareholders, Board of Directors, and Management Board and the fulfillment of obligations to the budget and counterparties;</td>
<td>- organizes the implementation of the decisions adopted by the Company’s General Meeting of Shareholders, Board of Directors, and Management Board and the fulfillment of obligations to the budget and counterparties;</td>
</tr>
<tr>
<td>- adopts decisions on the Company’s participation and discontinuation of its participation in other organizations if such a decision entails a transaction for an amount not exceeding RUB 450 million or is related to the reorganization or liquidation of an organization whose assets have a book value not exceeding RUB 450 million;</td>
<td>- adopts decisions on the Company’s participation and discontinuation of its participation in other organizations if such a decision entails a transaction for an amount not exceeding RUB 450 million or is related to the reorganization or liquidation of an organization whose assets have a book value not exceeding RUB 450 million;</td>
</tr>
<tr>
<td>- adopts decisions on the conclusion of transactions for an amount of not exceeding RUB 450 million in accordance with the procedure for concluding transactions.</td>
<td>- adopts decisions on the conclusion of transactions for an amount of not exceeding RUB 450 million in accordance with the procedure for concluding transactions.</td>
</tr>
</tbody>
</table>
MEMBERS OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2017

**Alexander Valeryevich Dyukov**  
Chairman of the Management Board, CEO  

**Biographical information**  
Born in 1967.  
2003–2006 – President of Sibur Holding OJSC;  
2006 – CEO of Sibur LLC.  
2006 – Chairman of the Board of Directors of Sibur Holding OJSC.  
2004–2008 – President of Gazpromneft OJSC.  
2008 – Chairman of the Management Board and CEO of Gazpromneft PJSC.  

**Positions held at other organizations:**  
- 2005 – Chairman and Deputy Chairman of the Board of Directors of Sibur Holding PJSC;  
- 2007 – Member and Chairman of the Board of Directors of Lakhta Centre Multifunctional Complex JSC;  
- 2008 – Chairman of the Board of Directors of Football Club Zenit JSC;  
- 2008 – Member of the Board of Trustees of St. Petersburg Mining University Federal State Budget Educational Institution of Higher Education  

**Interest in charter capital (as of 31 December 2017)**  
0.005357244% (254,003 shares)  

---

**Vadim Vladislavovich Yakovlev**  
Deputy Chairman of the Management Board, First Deputy CEO  

**Biographical information**  
Born in 1970.  
Graduated from the Moscow Engineering Physics Institute and the Graduate School of Finance at the International University in Moscow. 1999 – Earned his Chartered Association of Certified Accountants qualification (ACCA).  
2009 – Earned a diploma from the British Institute of Directors (IDI).  
2006–2007 – Head of the Budget Planning Department of Sibur PJSC.  
September–December 2007 – Vice President of Finances of Gazprom Neft PJSC.  
October 2007 – Member of the Management Board of Gazprom Neft PJSC.  
December 2007 – Deputy CEO for Economics and Finance of Gazprom Neft PJSC.  
May 2010–August 2011 – First Deputy CEO and CFO of Gazprom Neft PJSC.  
August 2011 – First Deputy CEO and Deputy Chairman of the Management Board of Gazprom Neft PJSC.  
Handles matters related to exploration and production, strategic planning as well as merger and acquisition transactions at the Company.  

**Positions held at other organizations:**  
- 2007 – Chairman of the Board of Directors of Gazpromneft-NGC JSC;  
- 2007 – Member of the Board of Directors of Slavneft OGC JSC;  
- 2008 – Chairman of the Board of Directors of GPN-Development LLC;  
- 2009 – Chairman of the Board of Directors of Nafta Industrija Srbije A.D. Novi Sad;  
- 2011 – Chairman of the Board of Directors of Gazpromneft-Vostok LLC;  
- 2011 – Chairman of the Board of Directors of Gazpromneft-Khantos LLC;  
- 2011 – Chairman of the Board of Directors of Gazpromneft-NTC LLC;  
- 2011 – Chairman of the Supervisory Board and Member of the Supervisory Board of Salyms Petroleum Development N.V.;  
- 2012 – Member of the Board of Directors of SN-MNG OJSC;  
- 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;  
- 2012 – Chairman of the Board of Directors of Gazpromneft-Orenburg LLC;  
- 2014 – Chairman of the Board of Directors of Tomskneft EDC AG;  
- 2015 – Member of the Board of Directors of Gazprom Neft Shelf LLC.  

**Interest in charter capital (as of 31 December 2017)**  
0.001051526% (49,856 shares)
Igor Konstantinovich Antonov  
Member of the Management Board, Deputy CEO for Security

Biographical information  
Born in 1951.  
Graduated from Leningrad Aviation Instrumentation Institute.  
2005–2007 – Vice President for Security at Sibneft OJSC.  
December 2007 to present – Deputy CEO for Security of Gazprom Neft PJSC.

Alexander Mikhailovich Dybal  
Member of the Management Board, Deputy CEO for Corporate Communications

Biographical information  
Born in 1966.  
Graduated from Leningrad Electrotechnical Institute.  
2005–2007 – Chairman of the Board of Directors of Gazprom Media OJSC.  
February 2007 – Vice President of Gazprom Neft PJSC and Advisor to the Chairman of the Gazprom PJSC Management Board.  
December 2007 – Member of the Gazprom Neft PJSC Management Board and Deputy CEO for Corporate Communications.  
Responsible for regional and information policy as well as internal corporate and marketing communications at the Company.  
Positions held at other organizations:  
■ 2011 – Member of the Board of Directors of MFC Lakhta Centre JSC;  
■ 2012 – Chairman of the Board of Directors of Avangard Hockey Club Association;  
■ 2015 – Member of the Board of Directors of Gazprom-Media LLC;  
■ 2017 – Member of the Board of Directors of Gazprom-Media Entertainment Television LLC.

Vladislav Valeryevich Baryshnikov  
Member of the Management Board, Deputy CEO for International Business Development

Biographical information  
Born in 1965.  
Graduated from the Red Banner Military Institute.  
State Councillor of the Russian Federation, third class.  
April 2009 – Deputy General Director for International Business Development.  
November 2009 – Member of the Gazprom Neft PJSC Management Board.  
Handles matters related to international business development and interaction with foreign partners at the Company.  
Positions held at other organizations:  
■ 2011 – Member of the Board of Directors of GPN-Development LLC;  
■ 2013 – Member of the Management Board of Gazprom Neft International S.A.
MEMBERS OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2017

Elena Anatolyevna Ilyukhina
Member of the Management Board,
Deputy CEO for Legal and Corporate Affairs

Biographical information
Born in 1969.
Graduated from the Ulyanov (Lenin) Saint Petersburg State Electrotechnical University and Saint Petersburg State University. Awarded PhD in Economic Sciences in 2001.
Prior to appointment at Gazprom Neft PJSC, she served as Executive Director of Northwest Investment Company LLC.
December 2007 – Member of the Gazprom Neft PJSC Management Board and Deputy CEO for Legal and Corporate Affairs.
Responsible for legal and corporate support for the Company’s operations.

Positions held at other organizations:
- 2009 – Member of the Board of Directors of Gazpromneft-NNG JSC;
- 2009 – CEO and Member of the Board of Directors of MFC Lakhta Centre JSC;
- 2010 – Member of the Supervisory Board of Gazprom Neft Finance B.V.;
- 2010 – Member of the Supervisory Board of Gazprom Neft International S.A.;
- 2011 – Member of the Board of Directors of GPN-Development LLC;
- 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;
- 2015 – Member of the Board of Directors of Gazprom Neft Shelf LLC.

Interest in charter capital (as of 31 December 2017)
Does not own company shares

Kirill Albertovich Kravchenko
Member of the Management Board,
Deputy CEO for Organizational Affairs

Biographical information
Born in 1976.
Graduated from Lomonosov Moscow State University, Open University and IMD Business School. Doctor of Economic Sciences and a Professor.

April 2007 – Vice President of Gazprom Neft PJSC.
2017 – Member of the Gazprom Neft PJSC Management Board and Deputy CEO of Gazprom Neft PJSC for Organizational Affairs.

Positions held at other organizations:
- 2009 – Member of the Board of Directors of NIS A.D., Novi Sad;
- 2017 – Chairman of the Board of Directors of ITSC LLC.

Interest in charter capital (as of 31 December 2017)
0.000068462% (3,246 shares)
Andrey Nikolayevich Patrushev
Member of the Management Board, Deputy CEO for Offshore Project Development

Biographical information
Born in 1981.
2006 – Graduated from the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation with a major in world economics.
2008 – Graduated from Gubkin Russian State University of Oil and Gas with a major in the oil and gas business.
2006–2007 – Vice President
2006–2009 – Advisor to the Chairman of the Board of Directors of Rosneft OC OJSC.
2009–2011 – Deputy CEO for Business Development at RN-Service LLC.
2011 – Work at Zarubezhneft OJSC and involvement in organizing the activities of the Russian-Vietnamese joint venture Vietsovpetro to develop Vietnam’s offshore fields.
2012 – First Deputy CEO of Vietsovpetro and Deputy CEO of Zarubezhneft.
Mid-2013 – Appointed Deputy CEO for Major Construction at Gazprom Dobycha Shelf LLC [renamed Gazprom Dobycha Shelf Yuzhno-Sakhalinsk in 2014].
April 2015 – Deputy CEO for Offshore Project Development at Gazprom Neft PJSC.

Positions held at other organizations:
- 2015 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;
- 2015 – Chairman of the Board of Directors of Gazprom Neft Shelf LLC;
- 2016 – Chairman of the Board of Directors of CentreKaspneftegaz LLC.

Anatoly Moiseyevich Cherner
Deputy Chairman of the Management Board, Deputy CEO for Logistics, Processing and Sales

Biographical information
Born in 1954.
Graduated from Grozny Oil Institute.
2004–2007 – Vice President of Sibneft OJSC for Processing and Sales.
December 2007 – Member of the Management Board of Gazprom Neft PJSC and Deputy CEO for Logistics, Processing and Sales.
Responsible for oil refining and the logistics and sales of oil and petroleum products at the Company.

Positions held at other organizations:
- 2006 – Chairman of the Board of Directors of Gazpromneft-Omsk Oil Refinery LLC;
- 2006 – Member of the Board of Directors of Slavneft OGC OJSC;
- 2007 – Chairman of the Board of Directors of Gazpromneft-Aero JSC;
- 2007 – Chairman of the Board of Directors of Gazpromneft-Moscow Oil Refinery JSC;
- 2007 – Member of the Board of Directors of Slavneft-YANOS OJSC;
- 2008 – Chairman of the Board of Directors of Gazpromneft Marine Bunker LLC;
- 2008 – Chairman of the Board of Directors of Gazpromneft-SM LLC;
- 2009 – Member of the Board of Directors of SPIMEX JSC;
- 2009 – Member of the Board of Directors of Naftna Industrija Srbije A.D. Novi Sad;
- 2009 – Member of the Supervisory Board of Mozyr Oil Refinery OJSC;
- 2010 – Chairman of the Board of Directors of Gazpromneft-Logistics LLC;
- 2016 – Member of the Board of Directors of Gazpromneft Lubricants Italy;
- 2016 – Chairman of the Board of Directors of Gazpromneft-Catalytic Systems LLC;
- 2017 – Chairman of the Board of Directors of Avtomatika-Service LLC.
MEMBERS OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2017

Alexey Viktorovich Yankevich
Member of the Management Board, Deputy CEO for Economics and Finance

Biographical information
Graduated from Saint Petersburg State Electrotechnical University and the Leti-Lovanium International School of Management.
2004 – Earned the qualification of a Certified Management Accountant (CMA).
2005–2007 – Deputy CFO of LLK-International LLC.
2007–2011 – Head of the Budget Planning Department and Head of the Directorate of Economics and Corporate Planning of Gazprom Neft OJSC.
2011–2012 – Acting Deputy CEO for Economics and Finance of Gazprom Neft OJSC.
March 2012 – Member of the Management Board and Deputy CEO for Economics and Finance of Gazprom Neft PJSC.

Positions held at other organizations:
- 2011 – Member of the Board of Directors of Gazpromneft-Aero JSC;
- 2011 – Member of the Board of Directors of Gazpromneft-SM LLC;
- 2011 – Chairman of the Board of Directors of Gazpromneft Business Service LLC;
- 2011 – Chairman of the Board of Directors of Gazpromneft Lubricants Italy;
- 2011 – Member of the Board of Directors of Gazpromneft Marine Bunker LLC;
- 2013 – Member of the Board of Directors of Slavneft OGC OJSC;
- 2013 – Member of the Board of Directors of Naftna Industrija Srbije A.D. Novi Sad;
- 2015 – Member of the Board of Directors of Gazprom Neft Shelf LLC.

MANAGEMENT BOARD IN 2017

- Neither the Chairman nor members of the Management Board concluded any translations involving the acquisition or alienation the Company’s shares in the reporting year.
- In December 2017, the Board of Directors terminated the powers of a member of the Gazprom Neft PJSC Management Board ahead of schedule and agreed on the dismissal of Deputy Director General for Organizational Affairs Vitaly Baranov.
- The size of the Management Board was reduced to 10 people.
- No claims were filed against the CEO or members of the Management Board in 2017.

REPORT ON THE MANAGEMENT BOARD’S WORK IN 2017
The Gazprom Neft Management Board considers matters on a scheduled basis taking into account the decisions of the General Meeting of Shareholders and the Board of Directors as well as matters submitted by the CEO and Management Board members. The Management Board’s work plan is also compiled based on the proposals of the heads of Gazprom Neft structural units.

As one of the tools used to additionally inform members of the Board of Directors about the Company’s performance results, the Charter and Regulation on the Gazprom Neft Management Board provide for MD&A management reports (management’s discussion and analysis of financial conditions and operational results) to be sent to members of the Board of Directors on a quarterly basis.

In 2017, there were 16 meetings of the Gazprom Neft Management Board, including 12 in-person meetings, during which various issues of the day-to-day operations of the Company’s Management Board were considered. The main issues included:
- the endorsement of transactions to acquire shares in the companies of Resourceoil JSC and Nefteservice JSC and the establishment of Bazhen Technological Centre LLC;
- the approval of the main provisions of the Offshore Project Development Strategy;
- the consideration of the concept for attracting partners (investors) to participate in the projects of the Company’s Exploration and Production Unit;
- the consideration of the activities of the Exploration and Production Unit, the Offshore Project Development Unit, and the Logistics, Processing, and Sales Unit for 2016;
- information about the implementation of the Investment Programme, the Budget (financial plan), and the Financial Borrowing Programme of the Gazprom Neft Group for 2016 based on the Company’s performance results in 2016 was taken under advisement;
- the consideration of the business plans of the Production Units for 2018–2020;
- information about the preliminary results of the implementation of the Investment Programme and Business Plan of the Gazprom Neft Group for 2017 as well as the consolidated business plan of the Gazprom Neft Group for 2018-2020 was taken under advisement.
**STATISTICS ON THE NUMBER OF MEETINGS OF THE MANAGEMENT BOARD IN 2013–2017**

Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>In person</th>
<th>In absentia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>22</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>2014</td>
<td>22</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>2015</td>
<td>14</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>2016</td>
<td>22</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>2017</td>
<td>16</td>
<td>12</td>
<td>4</td>
</tr>
</tbody>
</table>

**PARTICIPATION BY MANAGEMENT BOARD MEMBERS IN MEETINGS IN 2017**

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of meetings attended by the member of the Management Board</th>
<th>Total number of meetings which the member of the Management Board could have attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. V. Dyukov</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Chairman of the Management Board</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. K. Antonov</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>V. V. Baryshnikov</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>A. M. Dybal</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>E. A. Ilyukhina</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>K. A. Kravchenko</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>A. N. Patrushev</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>A. M. Cherger</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>V. V. Yakovlev</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>A. V. Yankevich</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>
REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS

The amount of remuneration for members of the Board of Directors depends on the Company’s financial results and is approved annually by shareholders. The ability of shareholders to engage in discretionary intervention eliminates the risk of potential abuse of the remuneration programme.

In accordance with the decision of the General Meeting of Shareholders, members of the Board of Directors who do not hold positions within the Company’s executive bodies (who are not executive directors) were paid remuneration in the amount of 0.005% of EBITDA in 2017 according to the Company’s consolidated IFRS financial statement for 2016.

Besides the base portion of remuneration, members of the Board of Directors were paid additional remuneration for performing the functions of Chairman of the Board of Directors (50% of the remuneration for a member of the Board of Directors), a member of the Board of Directors (10% of the remuneration for a member of the Board of Directors), and chairman of a committee of the Board of Directors (50% of the remuneration for a committee member).

The total amount of remuneration paid to members of the Board of Directors in 2017 amounted to RUB 303.37 million (remuneration includes personal income tax). No compensation was paid to members of the Board of Directors for expenses related to participation on the Board of Directors in 2017.

PAYMENT OF REMUNERATION TO MEMBERS OF THE GAZPROM NEFT PJSC BOARD OF DIRECTORS IN 2017
FOR PARTICIPATING IN THE WORK OF THE GOVERNING BODY

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Holds government positions and civil service positions</th>
<th>Amount, RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. B. Miller</td>
<td>Chairman of the Board of Directors</td>
<td>No</td>
<td>34,214,850</td>
</tr>
<tr>
<td>V. I. Alisov</td>
<td>Member of the Board of Directors</td>
<td>No</td>
<td>22,809,900</td>
</tr>
<tr>
<td>M. M. Garayev</td>
<td>Member of the Board of Directors</td>
<td>No</td>
<td>22,809,900</td>
</tr>
<tr>
<td>V. A. Golubev</td>
<td>Member of the Board of Directors, Member of the Audit Committee</td>
<td>No</td>
<td>25,090,890</td>
</tr>
<tr>
<td>N. N. Dubik</td>
<td>Member of the Board of Directors, Member of the Audit Committee, Chairman of the Human Resources and Remuneration Committee</td>
<td>No</td>
<td>28,512,375</td>
</tr>
<tr>
<td>A. V. Kruglov</td>
<td>Member of the Board of Directors, Member of the Audit Committee, Member of the Human Resources and Remuneration Committee</td>
<td>No</td>
<td>25,090,890</td>
</tr>
<tr>
<td>E. V. Mikhailova</td>
<td>Member of the Board of Directors</td>
<td>No</td>
<td>22,809,900</td>
</tr>
<tr>
<td>K. G. Selezev</td>
<td>Member of the Board of Directors</td>
<td>No</td>
<td>22,809,900</td>
</tr>
<tr>
<td>M. L. Sereda</td>
<td>Member of the Board of Directors, Chairman of the Audit Committee</td>
<td>No</td>
<td>26,231,385</td>
</tr>
<tr>
<td>V. P. Serdyukov</td>
<td>Member of the Board of Directors</td>
<td>No</td>
<td>22,809,900</td>
</tr>
<tr>
<td>S. A. Fursenko</td>
<td>Member of the Board of Directors, Member of the Human Resources and Remuneration Committee</td>
<td>No</td>
<td>25,090,890</td>
</tr>
<tr>
<td>V. V. Cherepanov</td>
<td>Member of the Board of Directors, Member of the Human Resources and Remuneration Committee</td>
<td>No</td>
<td>25,090,890</td>
</tr>
<tr>
<td>A. V. Dyukov</td>
<td>Executive Member of the Board of Directors</td>
<td>No</td>
<td>No remuneration paid</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>303,371,670</td>
</tr>
</tbody>
</table>
REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD

The Company has a clearly structured and objective remuneration programme for top and senior executives that ensures a connection between short-term goals and the amount of bonus payments. In addition to bonuses tied to short-term results, the Company has a motivation system based on the dynamics of the Company’s market capitalization over a three-year period.

Remuneration for Management Board members consists of three parts:
- base portion of remuneration,
- annual bonus,
- long-term incentive programme.

The base portion of remuneration is determined on an individual basis and fixed in the employment contract.

The annual bonus aims to motivate key management personnel to achieve the annual goals. When determining the size of the annual bonus, the degree to which executives fulfilled a fixed set of KPIs and business initiatives is analysed and approved. This set of KPIs includes performance indicators with respect to the Company’s strategic goals as well as corporate, financial, and performance targets, and starting in 2016 it also comprises indicators demonstrating compliance with industrial safety and occupational safety standards.

In order to improve the effectiveness of the employee material incentive system so that they achieve annual targets and, as a result, the Company’s strategic goals, the Board of Directors approved an Annual Bonus Policy for employees in 2017, which serves as the primary document with respect to annual bonuses and defines the goals, principles, components, procedure, and conditions of the annual bonus system for employees of the Company and its subsidiaries.

Input data used to set goals includes:
- the Company’s Development Strategy;
- the development strategies for the Units and functional areas;
- the annual business plan of the Company and its divisions.

The Company deems as equally important both the success (efficiency) of day-to-day operations as well as the implementation of long-term and strategic development measures that lay the foundation for the Company’s qualitative development in the medium and long term. To this end, both financial and operational indicators as well as business initiatives are taken into account when setting goals for the reporting period:
- financial and operational indicators (FOI): indicators that encompass the most significant aspects of current operating activities;
- business initiatives (BI): tasks that aim to improve the Company’s activities, including in the future.

Strategic targets (planned and actual) are approved by the Board of Directors of Gazprom Neft PJSC.

Based on the strategic targets approved by the Board of Directors, key performance indicators of the following management levels are determined for specific businesses: Exploration and Production, Logistics, Refining, and Sales, etc. Once the set of KPI is determined, they are cascaded and/or partitioned to all levels of management of Gazprom Neft PJSC and its subsidiaries.
**STRATEGIC TARGET PERFORMANCE INDICATORS FOR 2017**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017, adjusted plan</th>
<th>2017, actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalized consolidated earnings before interest, taxes, and depreciation (EBITDA), RUB bn</td>
<td>492.8</td>
<td>551</td>
</tr>
<tr>
<td>Economic value added (EVA), RUB bn</td>
<td>(20.4)</td>
<td>24.9</td>
</tr>
<tr>
<td>Return on average capital employed (ROACE), %</td>
<td>11.7</td>
<td>13.9</td>
</tr>
<tr>
<td>Debt capital to EBITDA ratio</td>
<td>1.64</td>
<td>1.19</td>
</tr>
<tr>
<td>Value of total proved reserves taking into account the proportion in affiliates, mn TOE</td>
<td>3,558</td>
<td>3,615</td>
</tr>
<tr>
<td>Reserve-replacement ratio (RRR), %</td>
<td>62</td>
<td>118</td>
</tr>
<tr>
<td>Production volume, mn TOE</td>
<td>89.4</td>
<td>89.75</td>
</tr>
<tr>
<td>Oil refining volume, mn t</td>
<td>39.3</td>
<td>40.11</td>
</tr>
<tr>
<td>Volume of premium petroleum product sales, mn t</td>
<td>25.6</td>
<td>26.13</td>
</tr>
<tr>
<td>Refining depth, %</td>
<td>82.0</td>
<td>83.5</td>
</tr>
<tr>
<td>Labour productivity, RUB mn / person</td>
<td>31.79</td>
<td>33.66</td>
</tr>
</tbody>
</table>

**DISTRIBUTION OF POWERS TO APPROVE THE RULES, PARAMETERS, AND RESULTS OF ANNUAL BONUSES**

<table>
<thead>
<tr>
<th>Powers</th>
<th>Authorized person / authorized body</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of the investment programme, financial plan, cost optimization programme, and strategic target indicators (STII), which are the basis for the establishment of goals and the approval of the planned KPI values of the CEO</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>Approval of the results of the implementation of the investment programme, financial plan, cost optimization programme, and strategic target indicators (STII), which are the basis for summarizing the annual KPI results and the approval of the annual bonus of the CEO</td>
<td></td>
</tr>
<tr>
<td>Signing of an order on the payment of the annual bonus</td>
<td>CEO or a person authorized by the CEO</td>
</tr>
</tbody>
</table>

The Long-term Incentive Programme is based on the appreciation of share value and was approved by the Board of Directors in 2012. The programme is an integral component of the Gazprom Neft Group’s long-term growth strategy and envisages the payment of remuneration to management for increasing the Group’s value for shareholders over a certain period.

**MAIN GOALS OF THE PROGRAMME:**

- ensuring growth in the Company’s operational efficiency in the long term;
- uniting the interests of the Company’s shareholders and senior executives;
- ensuring a balance between the Company’s short-term results and long-term sustainable development;
- the effective recruitment and retention of senior executives at the Company based on best international and Russian market practices.

---

1 — Indicator calculated according to IFRS: adjusted EBITDA and the income tax rate are applied taking into account the joint venture.
2 — Starting with the 2017 budget, hydrocarbon reserves under the Russian classification are reflected in the 2013 classification (Order No. 477 of the Ministry of Natural Resources and the Environment) per AB1 + C1 categories.
The Programme is subject to positive dynamics and the Company’s market capitalization over each three-year cycle of the Programme. The Programme is available to key management personnel of the Gazprom Neft Group subject to the fulfilment of certain duties. The amount of remuneration is assessed at fair value at the end of each reporting period and is paid at the end of the three-year period of the Programme. Remuneration depends on certain market conditions and duties that are taken into account when determining the amount that can be paid to such employees. Expenses are recognized throughout the validity of the plan.

The fair value of obligations under the Programme is determined using the Black-Scholes-Merton assessment model, which primarily takes into account the price of the Company’s shares, share price volatility, dividend yield, and interest rates over a period that is comparable to the remaining term of the plan. Changes to assessments of the fair value of an obligation over the course of the remuneration plan are reflected in the period during which they arise. The most recent three-year long-term motivation programme ended in 2017.

Income accrued for members of the Management Board totalled RUB 1.285 billion in 2017. Payments included salary for the reporting period, taxes charged for such salary and other mandatory payments to the relevant budgets and extra-budgetary funds, bonuses, annual paid leave for work during the reporting period, and payment for treatment and medical care.

No additional remuneration was paid to members of the Management Board for work in the management bodies of Gazprom Neft or its subsidiaries in 2017.

The Company did not issue any loans (credits) to members of the Board of Directors or Management Board.

### TOTAL REMUNERATION FOR 2017 WITH A BREAKDOWN BY EACH TYPE OF PAYMENT (RUB 1,000)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Board of Directors</th>
<th>Management Board</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for participating in management bodies</td>
<td>303,371.67</td>
<td>–</td>
<td>303,371.67</td>
</tr>
<tr>
<td>Salary</td>
<td>–</td>
<td>679,479.75</td>
<td>679,479.75</td>
</tr>
<tr>
<td>Bonuses</td>
<td>–</td>
<td>584,713.98</td>
<td>584,713.98</td>
</tr>
<tr>
<td>Other payments</td>
<td>–</td>
<td>20,639.99</td>
<td>20,639.99</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>303,371.67</strong></td>
<td><strong>1,284,833.72</strong></td>
<td><strong>1,588,205.39</strong></td>
</tr>
</tbody>
</table>

### CONTROL

#### INTERNAL CONTROL

In an effort to enhance the effectiveness of the internal control system and improve corporate governance, Gazprom Neft PJSC developed the Gazprom Neft PJSC Internal Control Policy, which is the primary document identifying the goals, objectives, components, and principles for the establishment and operation of the Company’s internal control system. The Policy is published along with the Company’s other internal documents at: [http://ir.gazprom-neft.com](http://ir.gazprom-neft.com).

The Policy was tentatively endorsed by the Audit Committee of the Gazprom Neft PJSC Board of Directors and approved by the Board of Directors in 2017.

The Company succeeds in achieving its goals in the most optimal way possible due to the high level of involvement of the Company’s executive bodies and senior management as well as the heads of structural units and Company employees in organizing and supporting the effective operation of the internal control system.

The internal control system ensures:

- the minimization of risks that impact the achievement of the Company’s goals;
- the development, introduction, proper implementation, monitoring, and improvement of control procedures at all levels of the Company’s business operations and management;
- awareness among the appropriate level of management bodies about shortcomings in control along with a suggestion for corrective measures to remedy deficiencies;
The Company’s executive bodies and senior management perform functions that aim to organize the development and effective operation of the internal control system; create a proper control environment, introduce a culture of internal control, and support high ethical standards at all level of the Company’s activities; distribute powers and duties and assign responsibility among the heads of structural units for establishing, introducing, supporting, monitoring, and improving the effective organization and operation of the Company’s internal control system; conduct a regular performance assessment of the Company’s employees and train personnel on internal control in connection with changes to the internal and external conditions of the Company’s operation.

The heads of the Company’s structural units and employees perform functions that aim to develop, document, introduce, fulfil, monitor (self-assessment), and improve control procedures within the framework of their relevant competencies and in the zone of their responsibility and also provide timely notification to supervisors about incidents when it is impossible to perform control procedures for any reason and/or changes must be made to control procedures due to changes to the internal and external conditions of the Company’s operation.

The Internal Audit Department performs the following functions:

- an independent and objective assessment of the effective organization and operation of the Company’s internal control system, risk management, and corporate governance based on a risk-oriented approach;
- developing recommendations to eliminate deficiencies identified in the course of audits and monitoring their introduction;
- consulting support for stakeholders within the Company with respect to the organization and operation of the Company’s internal control system;
- reporting the assessment results of the internal control system and proposals for its improvement to the Company’s Audit Committee and executive bodies.

The Audit Commission monitors the compilation of reliable financial statements and other information about the Company’s financial and business activities and property status.

The subjects of internal control at the Company and the distribution among them of the appropriate functions to organize and support the effective operation of the Company’s internal control system are primarily determined as follows.

As part of coordinating and supervising the management of the Company’s operations, the Board of Directors performs the functions of ensuring an appropriate control environment, introducing a culture of internal control, and maintaining high ethical standards at all levels of the Company’s activities. The Board of Directors determines the principles and approaches used for the organization and operation of the Company’s internal control system and conducts a high-level analysis and assessment of its effectiveness, including an annual review of how effectively the internal control system is organized and operates and, if necessary, the preparation of recommendations on how to improve it.

Information concerning the effectiveness of the internal control system is provided to shareholders within the Company’s annual report and also as part of the Gazprom Neft PJSC Internal Audit Department’s report on its performance results.

The Audit Committee performs the function of preparing recommendations for the Board of Directors on matters concerning the organization, operation, effectiveness assessment, and improvement of the Company’s internal control system, risk management and corporate governance at the Company, analyses the Company’s reporting and internal audit results for compliance with the legislation of the Russian Federation, International Financial Reporting Standards, Russian Accounting Standards, and other regulatory legal acts, and considers any established or alleged unethical practices by the Company’s employees.
AUDIT COMMISSION

The Audit Commission is a standing body that supervises the financial and business operations of Gazprom Neft. The Audit Commission acts on behalf of shareholders and is subordinate to the General Meeting of Shareholders in its activities.

The Audit Commission conducts audits of financial and business operations on the basis of the Charter and the Regulation on the Audit Commission and forms an independent opinion about the state of affairs at the Company. The Audit Commission’s conclusions are conveyed to shareholders at the General Meeting of Shareholders in the form of a report by the Company’s Audit Commission that is attached to the Gazprom Neft annual report.

The Audit Commission was elected at the Annual General Meeting of Shareholders on 9 June 2017 with the following members:
- V. K. Bikulov;
- G. Y. Delvig;
- A. A. Kotlyar;
- M. I. Mironova;
- I. B. Tolstikova.

Remuneration is paid to members of the Audit Commission based on the decision of the General Meeting of Shareholders. Annual remuneration for members of the Audit Commission paid in 2017 totalled RUB 4,520,000.

INTERNAL AUDIT DEPARTMENT

The Company conducts internal audits for a systematic and independent evaluation of the reliability and effectiveness of the corporate governance, risk management, and internal control systems.

In October 2017, the Board of Directors approved the Internal Audit Policy of Gazprom Neft PJSC, which specifies the goals, tasks, powers, responsibility, and status of the Internal Audit Department of Gazprom Neft PJSC as well as the scope and content of internal audit activities.

The internal audit function is performed by the Company’s Internal Audit Department whose director is appointed in coordination with the Board of Directors.

The Internal Audit Department is functionally subordinate to the Audit Committee of the Board of Directors and directly subordinate to the Company’s CEO.

The main objective of the Internal Audit Department is to provide the Board of Directors (via the Audit Committee) and Company management (the CEO and Chairman of the Management Board of Gazprom Neft PJSC) with independent, objective, reasonable, and substantiated guarantees1 and consultations that aim to improve the Company’s activities. The Internal Audit Department helps to achieve the Company’s goals using a systematic and sequential approach to assessing and improving the effectiveness of internal control, risk management, and corporate governance processes.

The Internal Audit Department performs the following main functions, among other things, in order to carry out its assigned tasks:
- drafting the work plan for the Internal Audit Department, including annual and future audit plans, and submitting it to the Audit Committee for approval;
- organizing and conducting internal audits and consultations at the Company and the Company’s organizations in the prescribed manner based on the best Russian and international internal audit practices;
- an independent and objective assessment of the reliability, effectiveness, accuracy, and integrity of the Company’s risk management, internal control, and corporate governance systems;
- drafting proposals to eliminate shortcomings and violations, the reasons for their occurrence as well as recommendations for improving the Company’s operations and submitting them to the Company’s management;
- hiring independent external consultants and experts in the prescribed manner within the framework of the Internal Audit Department’s approved budget, when necessary, to provide internal audit services;
- monitoring the completeness and timeliness of the implementation of measures prepared based on the results of audits to improve the internal control system as well as corporate governance and risk management processes;
- collecting, summarizing, and analysing the information required to fulfil the functions assigned to the Internal Audit Department as well as the individual orders of the Company’s management;
- organizing and improving the work of the Internal Audit Department on the basis of standards;
- participating in the development, introduction, and operation of automated internal audit management systems at the Company as well as the coordination of their development at the Company’s organizations;

1 — The guarantees provided in the internal audit consist of conclusions reached based on the results of internal audits.
drafting and introducing the Programme of Guarantees and Improved Internal Audit Quality endorsed by the Department and the Audit Committee, which includes:

- periodic internal assessments of whether the Internal Audit Department’s activities comply with the standards and the Code of Professional Ethics of the Company’s internal auditor;
- external assessments of the Internal Audit Department’s activities in accordance with the standards (at least once every five years);
- the drafting of recommendations to improve the Company’s operations and correct shortcomings based on audits, special inspections, investigations and advisory services and conveying them to the persons who can ensure they are properly reviewed;
- an assessment of the effectiveness of anti-fraud and corruption measures at the Company;
- organizing a system used to collect and process information based on signs and instances of fraud and corruption – a hotline for countering fraud, corruption, and other violations of the Corporate Code of Gazprom Neft PJSC;
- monitoring the completeness and timeliness of the execution of instructions given by the Company’s management based on the results of audits.

The Head of the Internal Audit Department reports to the Audit Committee and Board of Directors at least twice a year about the Department’s performance results for the reporting period and also regularly provides information about other audit issues falling within the Audit Committee’s purview during meetings held in person and in absentia.

Galina Yuryevna Delvig is the head of the Internal Audit Department.

In 2017, the Internal Audit Department conducted 86 audits in such areas as corporate governance, information technologies, and investment activities as well as in the main production areas of the Company’s business.

Specifically, as part of operational audits, the Internal Audit Department paid special attention to an analysis, identification, and assessment of systemic high-level areas in the Company’s various businesses. In particular, internal audits focused on the processes of transport support for current assets and major projects, the accounting of oil and associated petroleum gas, and the achievement of projected production levels. An assessment was also conducted regarding the internal control system for the management of irrecoverable losses and energy efficiency, accounting and sales of oil and petroleum products, procurement activities, financial reporting, and IT functions.

Taking into account the recommendations of the Internal Audit Department, the Company’s management has drafted and is implementing a set of measures to improve the effectiveness of the internal business process control system and making changes to the regulatory and methodological framework.

In addition to conducting, the Internal Audit Department also focused on developing consulting services aimed at improving the Company’s business.

Galina Yuryevna Delvig
head of the Internal Audit Department

Biographical information
Born in 1960.
Graduated from Plekhanov Moscow Institute of National Economy.
2008 – Head of the Internal Audit Department of Gazprom Neft PJSC.

Interest in charter capital
(as of 31 December 2017)
Does not own company shares
EXTERNAL AUDITOR

Each year the Company hires a professional auditing firm that is not associated with the Company through property interests or its shareholders from among the top international auditing companies to audit and confirm the accuracy of its annual financial statements.

The main principles for organizing and conducting an external audit, the procedure and criteria for selecting auditors, and the approaches used to ensure that auditors observe the principles of independence and have no conflict of interests are set forth in the External Audit Policy of Gazprom Neft PJSC.

The auditor is selected through a tender based on an assessment of the following criteria:
1. The participant’s qualification and experience based on the subject for which it is being selected, including experience with auditing oil and gas industry companies.
2. Ensuring the protection of the data and requirements of credit agreements (including ratings agencies).
3. Financial parameters: cost of services and payment terms.
4. Independence: the auditor’s independence is not jeopardized unless revenue per one client exceeds 15% of the auditor’s total revenue (according to the requirement of the Russian Ministry of Finance – clause 2.112 ‘Rules for the independence of auditors and audit organizations’ and international requirements – clause 290.219 from the IESBA Code of Ethics).

The Company’s auditor is approved by the General Meeting of Shareholders based on a proposal from the Board of Directors. A preliminary assessment of auditor candidates is conducted by the Audit Committee.

In order to assess the quality of work performed by the external auditor, the Audit Committee reviews reports by the external auditor and statements from management and also conducts in-person meetings with representatives of the auditors. The Audit Committee conducted four meetings over the course of 2017 with the Company’s auditor and examined the following issues:
- a review of the consolidated IFRS financial statements of the Gazprom Neft Group for 2016 and the first quarter, first half, and first nine months of 2017;
- the new form of the audit report for 2016;
- a review of the results of the activities of the external auditor of Gazprom Neft PJSC for 2016;
- the candidate for the auditor of Gazprom Neft PJSC for 2017 and determining the amount of payment for its services for 2017;
- an assessment of the Auditor’s Report on the accounting (financial) statements of Gazprom Neft PJSC for 2016 prepared by PricewaterhouseCoopers Audit JSC;
- the approaches to as well as the plan and procedures for the external audit of Gazprom Neft PJSC for 2017;
- the results of the assessment of the work of the external auditor of Gazprom Neft PJSC based on the results of 2016;
- the results of the interim audit of the Gazprom Neft Group for 2017;
- the fulfilment of recommendations to ensure monitoring in information systems based on the results of the audit of the financial statements of Gazprom Neft PJSC for 2016;
- approaches to holding a tender and the members of the tender commission for the selection of the external auditor of Gazprom Neft PJSC for 2018.

PricewaterhouseCoopers Audit JSC (PwC) was re-elected as the Company’s auditor at the General Meeting of Shareholders in June 2017.

The Board of Directors set payment for the audit services of the Gazprom Neft PJSC financial (accounting) statements for 2017 at RUB 39,060,000 (excluding VAT), including:
- RUB 6.06 million – audit services for Gazprom Neft statements according to Russian Accounting Standards (RAS);
- RUB 33 million – audit services for the consolidated statements according to International Financial Reporting Standards (IFRS), including services involving the audit of interim statements.

PricewaterhouseCoopers Audit JSC, the company that audits the financial statements of Gazprom Neft PJSC in accordance with international and Russian financial reporting standards, only provides the Company with audit services. PricewaterhouseCoopers Consulting LLC provides the Gazprom Neft Group with consulting services unrelated to accounting and the preparation of the financial statement. At the same time, the principles of the auditor’s independence are observed: consulting services are provided by an organization that is not an auditor of Gazprom Neft PJSC; the employees providing audit services are not involved in providing consulting services; and revenue per one client does not exceed the permissible values.
MANAGEMENT OF POTENTIAL CONFLICT OF INTERESTS

The Company strives to maintain a balance of interests between shareholders and management with their cooperation characterized by a high level of trust, strong culture of business relations, and ethical standards. The Company’s main shareholder has a sufficient number of votes to pass decisions on a significant number of issues that fall within the purview of the General Meeting of Shareholders and also to form the Board of Directors. Despite this, the Company seeks to utilize tools that feature a high concentration of equity to mitigate risks related to the specific nature of management.

The Company has a transparent ownership structure, the rights and duties of shareholders as well as the procedure for administering property rights are clearly defined in the Company’s Charter and internal documents, and information about this is publicly available. The Company adheres to the principle of equal shareholder voting rights and has also established mechanisms to protect voting rights in its internal documents.

The main elements for preventing conflicts at the shareholder level are:
- compliance with the order and procedure for making decisions on the most significant issues;
- compliance with the voting procedure for related party transactions;
- hiring reputable and independent appraisers to value the assets in related party transactions;
- ensuring maximum transparency and information openness when preparing for and holding meetings of shareholders as well as the prompt disclosure of information about decisions adopted by the Board of Directors;
- disclosing information about related party transactions. According to the Company’s financial statement for 2017, related party transactions were concluded as part of regular business activities and had a clear economic rationale. The most common types of transactions are those involving the sale and purchase of oil, gas, and petroleum products;
- hiring companies from the Big Four auditing firms as external auditors;
- establishing mechanisms to protect against the dilution of the Company’s value. The procedure for organizing and selecting counterparties for the procurement of goods, work, and services was carried out in accordance with the approved Company standards, which stipulate that open forms of competitive selection procedures for counterparties are preferable.

Gazprom Neft has approved internal documents (the Corporate Conduct Code and Code of Corporate Governance) which set forth the values and principles that serve as the basis for the establishment and development of the Company’s corporate culture.

The Corporate Conduct Code regulates situations that could involve a conflict of interests, the acceptance of gifts, the use of the Company’s assets or resources, stakeholder engagement, social responsibility, the handling of confidential information, the activities of the Corporate Culture and Ethics Working Committee, and the operation of the fraud and corruption prevention hotline, among other situations.

Gazprom Neft has established a Corporate Culture and Ethics Working Committee that monitors compliance with the provisions of the Code. The Corporate Culture and Ethics Working Committee includes members of the Management Board and is chaired by the Management Board Chairman.

The Company has approved the necessary internal documents to implement certain principles of the Code, for instance in matters concerning access to confidential information, nondisclosure, HR policy, and the development of succession candidates.

The Gazprom Neft Code of Corporate Governance stipulates that members of the Board of Directors must refrain from any actions that would lead or could lead to a conflict of interests and from voting on matters in whose outcome they have a personal interest, and also must not disclose or use confidential and/or insider information about the Company for their personal interests or the interests of third parties.

The Corporate Conduct Code defines the concept of a conflict of interests and zones of control when managing a conflict of interests as well as the positions of personnel most susceptible to a conflict of interests, and contains examples of situations in which a conflict of interests may arise.
The main zones of control when managing a conflict of interests are:
- the selection of counterparties and relations with counterparties;
- the system of settlements and payments, particularly those connected with the hiring of agents / intermediaries;
- the hiring of Company personnel;
- the participation of employees in political and government activities;
- charitable and sponsorship activities;
- gifts and entertainment expenses.

The Company’s following personnel positions are most susceptible to a conflict of interests: executives and management of structural units whose functions include external relations and contacts on behalf of the Company.

The Code contains a reference to the need for Company employees to inform management and the legal service about all instances of a conflict of interests. There is a hotline for employees as well as email addresses and special mailboxes to report violations anonymously. Third parties who are not Company employees, in particular counterparties, may also file reports via the hotline. The Board of Directors reviews the hotline results twice a year, including statistics on the (processed) reports received and violations that are ultimately identified.

The Company’s internal documents require that officials provide information about all affiliates. The Company regularly checks information received from new members of the Board of Directors, in particular concerning the ownership of stakes in subsidiary organizations.

The Company verifies whether members of the Company’s Board of Directors and Management Board and their relatives have any conflicts of interests in employment at the Company. According to the Regulation on the Management Board, members of the Management Board are only permitted to serve concurrently on the management bodies of other organizations with the consent of the Company’s Board of Directors.

The Company re-verifies information on a quarterly basis about members of the Company’s Management Board and Board of Directors serving at other companies.

The Company collects and processes information about the beneficiary owners of counterparty companies in all agreements concluded by Gazprom Neft PJSC as well as subsidiaries and affiliates.

There were no conflicts of interests among members of the Gazprom Neft Board of Directors and Management Board in 2017.

The Company re-verifies information on a quarterly basis about members of the Company’s Management Board and Board of Directors serving at other companies.

ANTIFRAUD AND ANTI-CORRUPTION POLICIES AND PROCEDURES

In 2014, the Company adopted an Anti-Fraud and Anti-Corruption Policy that serves as the fundamental internal regulatory document of the Company and its subsidiaries in combatting corruption.

The Policy defines the concept of fraud and other anti-fraud terminology and stipulates that the Company’s senior management must institute unified ethical standards to reject corruption in all its forms and manifestations. The Policy specifies the methods and procedures employed by the Company to combat fraud and corruption, in particular the Company’s hotline, internal investigations and prosecution for instances when fraud is committed.

The Policy separately describes the risks of corruption that are typical for companies working in the oil production and refining industries. The Policy contains a section that sets forth the fundamental principles for implementing the Company’s business processes that are most susceptible to fraud risks, specifically: interaction with officials, the receiving and giving of gifts, entertainment expenses, charitable and sponsorship activities and financial relations with third parties.

The Anti-Fraud and Anti-Corruption Policy requires the Company’s employees to be trained in the principles of rejecting fraud and the foundations of applicable law. The Company’s Deputy CEO for Security and Head of the Internal Audit Department periodically report to Company management on anti-fraud and anticorruption matters.
D&O INSURANCE

The Gazprom Neft Group started providing its directors and officers (D&O) with liability insurance in 2011. The insurance protects the Company’s directors and officers against possible claims from third parties that may arise as a result of unintentional and/or erroneous actions of officials. The D&O policy covers the legal defence costs of directors and financial expenses from any claims made against directors in connection with the performance of their duties.

The total limit for all insurance coverage and extensions is EUR 47.6 million. There is an additional liability limit of EUR 1.9 million for independent directors. The coverage area is worldwide.

The Company chooses an insurer based on its existing competitive selection procedures. The insurer in 2017 was Sogaz JSC based on the corporate insurance policy.

INFORMATION POLICY AND DISCLOSURE

Gazprom Neft aims to promptly and regularly convey information about its operations to all those interested in receiving it to the extent necessary for them to make an informed decision about participation in the Company or other actions that are capable of affecting the Company’s financial and business operations.

In June 2017, the Board of Directors approved a new version of the Regulation on Information Policy (available on the company’s website at http://ir.gazprom-neft.com/vnutrennie-dokumenty/), which was harmonized with the provisions of Federal Law No. 208-FZ ‘On Joint-Stock Companies’ dated 26 December 1995 and the Code of Corporate Governance of Gazprom Neft PJSC regarding the forms of information disclosure and the procedure for providing information to the Company’s shareholders. The Regulation also introduced a new chapter on monitoring the observance of the information policy.

Gazprom Neft executive bodies handle the implementation of the information policy for the Company. The Company’s Board of Directors monitors compliance with the information policy.

In 2017, the Audit Committee of the Board of Directors examined the implementation of the Company’s information policy, in particular information disclosed by Gazprom Neft PJSC to third parties, including analytical and rating agencies.

The Company’s official website http://ir.gazprom-neft.com/vnutrennie-dokumenty/ contains its Charter and internal documents, data about the structure of equity, information about management bodies, information about the independent auditor and registrar, and information that must be disclosed in the forms prescribed by current legislation and the Company’s internal documents, including Gazprom Neft’s annual reports.

Gazprom Neft maintains a special web page http://ir.gazprom-neft.com/ with answers to FAQs from shareholders and investors, a regularly updated investor’s calendar, dividend history for the past five years, key performance indicators, contact information, and other useful information for shareholders and investors.

Gazprom Neft organizes regular presentations and meetings for members of the Company’s executive bodies and other key senior officials with investors and analysts, including meetings related to the disclosure (publication) of the Company’s accounting (financial) statements or related to the Company’s core investment projects and strategic development plans.

The Company discloses information on its website about the organizations it controls, specifically citing a list of such organizations, their core activities as well as a link to the website of the organization, as prescribed by the recommendations of the Russian Code of Corporate Governance.

In accordance with the requirements of the Information Disclosure Regulation, when publishing information on the Internet information and telecommunications network, the Company also uses a webpage provided by one of the information disseminators on the securities market (Interfax-CIDC LLC).
One of the most important principles of the corporate governance of Gazprom Neft PJSC is its information openness. The Company consistently ranks among the leaders in information disclosure at Russian and international competitions.

The Gazprom Neft annual report for 2016 was awarded a gold medal at the LACP Vision Awards in Energy – Oil/Gas/Fuel, while the interactive version of the report received a silver award. In addition, the report was listed among the top 20 reports of Russian companies as well as the top 100 reports of EMEA (Europe, Middle East, and Africa) companies.

In addition, the Gazprom Neft annual report for 2016 was recognized at the Corporate & Financial Awards, a prestigious European ceremony for the best corporate financial communications. The Company received a bronze medal for the online version of its report (Best Online Report – International). The competition’s jury noted the conceptual notion of the report of Gazprom Neft. This concept – from the key points of the report through strategy and concluding with results – is observed throughout the entire report.

One of the most important principles of the corporate governance of Gazprom Neft PJSC is its information openness. The Company consistently ranks among the leaders in information disclosure at Russian and international competitions.


<table>
<thead>
<tr>
<th>Type of message</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>On bond issues</td>
<td>27</td>
</tr>
<tr>
<td>On the agenda and decisions of the issuer’s management bodies</td>
<td>97</td>
</tr>
<tr>
<td>On the disclosure of various types of the issuer’s reporting (quarterly reports, lists of affiliated entities, annual report, consolidated financial statement, annual accounting statement)</td>
<td>17</td>
</tr>
<tr>
<td>On the transactions of the issuer and its subordinate organizations</td>
<td>17</td>
</tr>
<tr>
<td>On a change in participatory interest in other organizations</td>
<td>4</td>
</tr>
<tr>
<td>Other messages</td>
<td>69</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>231</strong></td>
</tr>
</tbody>
</table>
Gazprom Neft PJSC has a Risk Management Policy that defines the general goals and principles of risk management in order to make the Group’s business more secure in both the short and the long term.

Gazprom Neft’s key goal in risk management is to increase the effectiveness of management decisions through an analysis of related risks and also to maximize the effectiveness of risk management measures when implementing the decisions that the Company has adopted.

Risk management is built on the principle of integrating analysis and risk management tools into key corporate processes. Responsibility for risk management and preparing reporting on risk management is determined in accordance with the system of linear and functional management. An owner is appointed for each risk and is responsible for managing it. Risk coordinators who promote and support the use of corporate risk management principles are selected from among managers at the level of each function and key business process. The risk analysis deadlines and objectives take into account the specific features and demands of each business process for which risk management is performed.

This approach makes it possible to form zones of responsibility for risk management and monitor risks at all levels of the Company’s management as well as ensure the preparation of targeted response plans to substantial risks both at each subsidiary as well as at Gazprom Neft as a whole.

Objectives of risk management:
- to establish a risk management culture at the Company in order to reach a common understanding among management and employees of the main principles and approaches to risk management;
- to establish and introduce a systematic approach to identifying and assessing risks that are inherent in the Company’s activities both as a whole and individual areas of activities;

**LEVELS OF FINANCIAL IMPACT OF RISK AND DISTRIBUTION OF POWERS WITHIN THE IRMS**

- **Key Risks**
  - The Management Board adopts key decisions and assesses management results. Units directly manage this risk category.

- **Risks of Units**
  - Management and monitoring at the Unit level

- **Risks of Subsidiaries**
  - Management and monitoring at the subsidiary level
to promote the exchange of information on risks between the Company’s structural divisions and the joint development of risk management actions;

- to provide systematic information about risks to the Company’s governing bodies.

In order to meet this objective, the Company has developed and implemented a unified approach to the risk management process, which combined with unified risk analysis tools and methods forms the Integrated Risk Management System (IRMS).

The regulatory and methodological framework of the IRMS includes the following documents:

- the Risk Management Policy;
- the Integrated Risk Management System (IRMS) Company Standard;
- methodological guidelines for the risk management process;
- additional methodological guidelines for certain types of risks and on the use of certain risk analysis tools.

Risk management constitutes an integral part of the internal environment of Gazprom Neft and includes:

- introducing a risk-oriented approach to all aspects of production and management activities;
- conducting a systematic analysis of identified risks;
- building a system to control risks and monitor the effectiveness of risk management activities;
- an understanding by all Company employees of the basic principles and approaches to risk management in place at the Company;
- providing the required regulatory and methodological support;
- allocating powers and responsibilities for risk management among the Company’s structural divisions.

The Company is continuously expanding the methodological framework for the IRMS, including general recommendations on the quantitative risk assessment of project and business planning as well as detailed methods for assessing the most substantial inherent risks.

As of the end of 2017, the IRMS covered all major Gazprom Neft assets. Once new projects are launched or existing assets are acquired, they are included within the IRMS.

In 2018, the Company plans to continue developing regulatory and methodological documents to analyse certain substantial risks and integrate risk analysis into the decision-making process and also to expand the training programme for the Company’s executives and employees on matters concerning risk management tools and methods.
DESCRIPTION OF THE MAIN RISKS

Operating
- Risks associated with geological exploration operations
- Licensing risks
- Project risks
- Risks associated with human resources
- Risks associated with occupational and industrial safety
- Environmental risks
- Risks associated with information security

Market
- Risks associated with a possible change in prices for purchased raw materials and services
- Risks associated with a possible change in the price of oil, petroleum products, gas, and gas products
- Risks associated with industry-wide competition
- Risks associated with a possible change in the economic environment

Financial
- Credit risk of counterparties
- Risk associated with borrowing
- Foreign exchange risk
- Interest risk

Strategic
- Risk of failing to achieve strategic goals

Partner
- Risks associated with attracting partners

Description

1. OPERATING RISKS

1.1. Risks associated with geological exploration operations

One of the Company’s key strategic objectives is growth in the raw hydrocarbon resource base in quantitative and qualitative terms in order to ensure the required level of production, which in turn largely depends on the success of geological exploration. The main risks associated with geological exploration operations are the failure to confirm the planned level of hydrocarbon reserves and objective deterioration in the quality of the resource base. Another important factor is geological exploration work in different geographic regions, including regions with adverse climatic conditions and environmental restrictions, which often lead to the risk of increased costs. Estimates depend on a number of variable factors and assumptions, including the following:

- the correlation of the historical level of productivity in the region of production with the productivity of other regions that are comparable in terms of characteristics;
- the interpretation of geological exploration data;
- the effect of the requirements of government structures and legislative acts.

Gazprom Neft has considerable experience conducting geological exploration work and employing the latest geophysical methods to search for and explore hydrocarbons as well as advanced technologies in the drilling and development of fields, including in harsh natural and climatic conditions, which results in the decreased probability of such risks. The Company has hired the auditor DeGolyer & MacNaughton to perform an independent audit of reserves based on the estimates of the Gazprom Neft’s subsidiaries. Gazprom Neft actively cooperates with government structures at the federal and regional levels on matters concerning the sustainable use of subsoil resources.

Gazprom Neft manages licensing risks associated with geological exploration work by making timely changes to the design documents for geological exploration.
### 1.2. License risks

The Company performs its subsoil resource operations on the basis of special permit documents and licenses for the right to use subsoil sites, which specify the intended use (type of subsoil use), spatial boundaries, dates, and mandatory conditions for the use of the subsoil resources. Existing law envisages administrative sanctions for the unlicensed use of a subsoil site, and there is a risk of criminal liability in a number of cases.

The failure to meet the conditions for the use of subsoil resources may entail administrative liability with the imposition of fines, while the violation of significant conditions for the use of subsoil resources may entail the risk of the early termination of a license in accordance with Article 23 of Federal Law No. 2395-1 dated 21 February 1992 ‘On Subsoil Resources’. If the right to use subsoil resources is terminated prematurely, the Company bears both reputational risks as well as material damages related to the expenses incurred on acquiring the right to use the subsoil resources, investments to develop the subsoil site and decreased capitalization associated with the loss of the resource base.

The Company views the prohibition on the unlicensed use of subsoil resources as a categorical imperative. The Company provides end-to-end surveying support for all stages of prospecting, exploration, and production drilling as an exhaustive measure to prevent the unlicensed use of subsoil resources.

The Company’s Subsoil Use Monitoring System (SUMS) automated complex with its well-developed matrix for the risks involved with fulfilling the main (significant) conditions for the use of subsoil resources is the main risk management tool that is used to assess the current state of risks using matrix indicators and plan for an acceptable level of risk in the future.

Permanent regional commissions for the licensing of subsidiaries review the status of current and potential license risks and the implementation of targeted measures to mitigate such risks on a quarterly basis.

The CEOs of the Company’s subsidiaries are responsible for withholding a license for the right to use subsoil resources.

### 1.3. Project risks

The Company continuously develops and implements investment projects that aim to achieve strategic goals, in particular growth in the extraction of raw commodities and improvements in the quality of the products manufactured. When implementing projects, the Company encounters a variety of risks that could lead to a violation of the deadlines and/or the increased cost of the project. The main factors behind such risks are poor planning, violations of the project terms and safety requirements by contractors as well as new circumstances (increased cost of materials, errors in the assessment of infrastructure conditions, and switching equipment suppliers).

The Company manages these risks, while paying special attention to the development and coordination stages of investment projects. In 2014, a risk management system was introduced to the process of preparing and implementing major projects. This system is based on the generally accepted approach in the global industry to establishing a project’s value using the Stage-Gate process with a risk assessment of the project at each of its stages. Requirements for contractors are based on a risk assessment and also take into account the requirements of the laws of the country in which the project is being implemented. In addition, the Company has established a project monitoring system.

### 1.4. Risks associated with human resources

The Company’s business depends on highly skilled key employees, and a lack of skilled labour, in particular in engineering and technical areas, may lead to risks associated with a shortage of personnel.

The Company’s success largely depends on the efforts and abilities of key employees, including skilled technical personnel, as well as the Company’s ability to recruit and retain such personnel. Competition for personnel in Russia and abroad may intensify due to the limited number of skilled specialists on the labour market. The inability to recruit new skilled personnel and/or retain existing skilled personnel could have a negative effect on the Company’s appeal as an employer. Demand for skilled employees and the related expenses are expected to grow, thereby reflecting the considerable interest in such resources from other industries and social projects.

The Company offers a safe workplace and competitive salaries and provides training for employees in specially designed programmes. In addition, the Company is improving personnel recruiting procedures and implementing measures that aim to reduce personnel turnover and encourage the self-development of personnel.
1.5. Risks associated with occupational safety and industrial safety

The Company is exposed to risks involving the safety of employees, equipment, buildings, and structures. Numerous factors may have a negative effect on the Company’s core activities, including the breakdown or failure of equipment, labour disputes, injury to personnel and third parties, natural disasters, political disputes, or acts of terrorism. Any of the risk factors may have a significantly adverse impact on the business, financial condition, and results of the Company’s activities. In order to mitigate these risks, the Company is implementing a large-scale integrated programme that aims to ensure safe working conditions for employees and safe manufacturing processes. This programme complies with the best international practices and is based on enhancing the role of production managers at all levels in ensuring work safety. The Company has successfully applied the experience gained from international oil companies by adapting it to the conditions of its production sites. In particular, the Company has introduced behavioural safety audits and internal incident investigations in order to identify and eliminate their causes, is implementing a transport safety programme, has introduced risk assessment for hazardous work, and holds numerous drills, training exercises, and seminars for all levels of the organization. The Company has certified the work safety management system for compliance with the OHSAS 18001 international standard, adheres to the principle of continuous improvement, and has selected priority areas of this system for the coming years. The Company declared 2016 the Year of Occupational Safety.

1.6. Environmental risks

The production activities of Gazprom Neft are fraught with the potential risk of an environmental impact that exceeds the permitted standards, which may result in civil liability and the need for work to eliminate such damage. The Company is fully aware of its social responsibility to create safe working conditions and maintain a favourable environment, continuously monitors its activities to ensure compliance with the relevant environmental standards, and is implementing an environmental protection programme. In the future, costs associated with observing environmental requirements or obligations may increase. The industrial safety policy of Gazprom Neft aims to ensure compliance with the requirements of current environmental legislation by investing substantial funds in environmental measures, including the use of technologies that ensure minimal negative impact on the environment. These activities have resulted in a significant decline in the probability of risks associated with environmental pollution. The Company also follows the changes in environmental legislation in the different countries in which it operates.

1.7. Risks associated with information security

As a major high-tech company, Gazprom Neft pays special attention to the assessment and analysis of risks associated with information technologies, automation, and telecommunications (ITAT). ITAT risks are associated with the management of ITAT activities, the functioning of IT systems as well as the possible risks of sanctions on foreign software. The Company’s goal in ITAT risk management is to enhance the ability to effectively achieve business objectives through projecting ITAT risk factors and to maximize the effectiveness of ITAT risk management activities. The Company constantly monitors and closely analyses both threats that are already known as well as potential threats to ITAT. The Company’s Department of Information Technologies, Automation, and Telecommunications is responsible for developing regulatory documents governing the risk management activities of ITAT and also implements a number of activities that aim to reduce the impact of such risks by:

- Ensuring the identification of events that may have a negative impact on the achievement of the Company’s objectives;
- Ensuring the analysis, assessment, and prioritization of ITAT risks;
- Ensuring an optimal response strategy and the implementation of ITAT risk management activities;
- Ensuring continuous monitoring and control over the implementation of ITAT risk management activities.
### Market Risks

**2. Risk Management Measures**

Gazprom Neft’s core businesses are oil and gas production, oil refining, and the sale of oil and petroleum products, thus the Company is exposed to risks that are traditionally inherent to the oil and gas industry, namely:

- risks associated with a possible change in prices for purchased raw materials and services;
- risks associated with industry-wide competition;
- risks caused by economic instability in the industry;
- risks associated with possible changes in the price of oil, petroleum products, gas, and gas products;
- risks associated with a possible change in prices for purchased raw materials and services;
- add) economic activities, including:

<table>
<thead>
<tr>
<th>Description</th>
<th>Risk management measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.1. Risks associated with a possible change in prices for purchased raw materials and services</strong></td>
<td>The Company is implementing a number of measures that aim to mitigate the impact of such risks:</td>
</tr>
<tr>
<td>In the process of its business operations, Gazprom Neft uses the infrastructure of monopoly service providers for the transportation of oil and petroleum products and the supply of electricity and also uses raw materials and services that are purchased from a wide range of suppliers. The Company has no control over the infrastructure of these monopoly service providers, the amount of tariffs charged, or the pricing of raw materials and services by suppliers.</td>
<td>long-term planning of commodity flows and the timely provisioning of the cumulative flow of oil and petroleum products as well as the necessary rolling stock; the optimal redistribution of commodity flows by transportation type; the use of alternative and internal sources of power generation; long-term contracting with fixed volumes and prices for the entire duration of the contracts; the use of transparent cost revision formulas as part of long-term service contracts that are strictly dependent on market fluctuations. These measures make it possible to reduce risks associated with the use of services and the acquisition of goods from monopoly providers to an acceptable level and ensure the Company’s uninterrupted operations.</td>
</tr>
<tr>
<td><strong>2.2. Risks associated with possible changes in the price of oil, petroleum products, gas, and gas products</strong></td>
<td>The Company’s financial indicators are directly related to the price level of crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on fluctuations related to the balance of supply and demand on the global and domestic markets for crude oil and petroleum products as well as the actions of the regulatory authorities.</td>
</tr>
<tr>
<td>There is intense competition in the Russian oil and gas industry between the leading Russian oil and gas companies in the main areas of production and economic activities, including:</td>
<td>The implementation of the portfolio of strategic projects that aim to develop key areas of Gazprom Neft’s business ensures the gradual strengthening of the Company’s positions in the oil and gas industry through a reduction in risks associated with industry-wide competition.</td>
</tr>
<tr>
<td>- the acquisition of licenses for the right to use subsoil resources to produce hydrocarbons at auctions organized by the government authorities;</td>
<td></td>
</tr>
<tr>
<td>- the acquisition of other companies that own licenses for the right to use subsoil resources to produce hydrocarbons or that own existing assets associated with production raw hydrocarbons;</td>
<td></td>
</tr>
<tr>
<td>- the hiring of leading independent service companies;</td>
<td></td>
</tr>
<tr>
<td>- the acquisition of high-tech equipment;</td>
<td></td>
</tr>
<tr>
<td>- the hiring of experienced and the most qualified specialists;</td>
<td></td>
</tr>
<tr>
<td>- access to critical transportation infrastructure;</td>
<td></td>
</tr>
<tr>
<td>- the acquisition of existing assets and the construction of new assets that increase the product sales volume to end users.</td>
<td></td>
</tr>
<tr>
<td>In addition, there is competition from the suppliers of alternative energy sources, including coal and nuclear energy as well as renewable energy sources.</td>
<td></td>
</tr>
</tbody>
</table>
### 2.4. Risks associated with a possible change in the economic environment

The Russian economy is sensitive to price fluctuations for crude oil, natural gas, and other raw commodities on the global market. Negative oil and petroleum product price dynamics on the global market and a slowdown in the world and Russian economy may have an adverse effect on the Company’s business, limiting revenue and the volume of product markets and increase the cost of financial and other resources.

In order to mitigate the negative effect of this risk on its performance results, the Company works to ensure a balance between domestic sales and exports as well as oil production and refining and also maintains a focus on expanding the markets of premium sales channels and increasing product sales in foreign countries. Gazprom Neft subsidiaries also provide support to the country’s economy as major taxpayers and take part in large-scale infrastructure and socially significant projects.

The Company is constantly improving production and working on enhancing performance efficiency, including by implementing investment projects as well as updating and modernizing fixed assets.

### 3. FINANCIAL RISKS

Financial risks at Gazprom Neft are managed by the Company’s employees in accordance with their professional activities. The Financial Risk Management Committee determines the unified approach to financial risk management at Gazprom Neft and its subsidiaries. This approach is based on mitigating the degree of risk impact and the probability of such risks occurring by implementing the relevant measures and control procedures.

The activities of the employees of the Company and the Financial Risk Management Committee help to reduce potential financial damage and achieve stated goals.

#### 3.1. Credit risk of counterparties

Credit risk is the risk of the Group incurring financial losses caused by the failure of a customer or counterparty to perform its contractual obligations. This risk is primarily associated with the Group’s existing accounts receivable of customers with investment securities.

Trade and other accounts receivable are made up by the large number of counterparties working in different industries and geographic segments. Gazprom Neft is implementing a number of measures that allow for managing credit risk, including the following: assessing the creditworthiness of counterparties, establishing individual limits and payment conditions depending on the financial condition of counterparties, controlling advance payments, and measures to work with accounts receivable by business, among other things.

#### 3.2. Risk associated with borrowing

The imposition of sanctions on Gazprom Neft by the U.S., EU, and a number of other countries has significantly narrowed the range of financing instruments available to the Company.

Gazprom Neft effectively manages risk associated with the borrowing of funds. Despite the levying of sanctions against the Company by the U.S., EU, and a number of other countries in 2014, the Company fully implemented a programme to attract funding in 2017 and also signed credit agreements for financing that may be used in 2018–2020, including revolving facilities, which will provide the Company’s financial policy with additional flexibility and improve liquidity management efficiency.

The Company is also searching for alternative sources of funding.
3.3. Foreign exchange risk
The Group is exposed to foreign exchange risk primarily due to the availability of borrowed funds that are denominated in a currency other than the functional currencies of the Group’s corresponding entities, which are mainly the local currencies of the Group’s companies. For example, the functional currency for companies operating in the Russian Federation is the Russian rouble. A significant portion of the aforementioned borrowings are denominated in the U.S. dollar and the euro.

The Group’s foreign exchange risk is significantly mitigated due to the availability of assets and liabilities that are denominated in foreign currency: the current structure of revenue and liabilities acts as a hedging mechanism in which multidirectional cash flows compensate for one another. The Group employs accounting using the hedging method for cash flows denominated in foreign currencies to prevent the volatility of profit and losses.

3.4. Interest risk
Part of the Group’s loans and borrowings were raised under contracts with a variable interest rate (tied to LIBOR, Euribor, or the Bank of Russia’s key rate). To minimize the risk of adverse changes in LIBOR and Euribor rates, the Group’s Treasury conducts a periodic analysis of current interest rates on the capital market and, depending on the results of this analysis, decides whether to hedge the interest rate or borrow money at fixed or variable rates.

Changes in the interest rate primarily affect the principal of debt, altering either its fair value (at a fixed interest rate) or the amount of future cash outflows using the instrument (at a variable rate). When attracting new loans or borrowings, the Group’s management decides on the basis of its own professional judgments and information on current and expected interest rates on long-term lending markets whether to raise borrowed funds at fixed or variable rates depending on which rate (in conjunction with other parameters of the loan or borrowing) will be more profitable for the Group.

4. RISKS ASSOCIATED WITH GOVERNMENT REGULATION AND POLITICS
Gazprom Neft carries out its activities in strict compliance with the standards of Russian legislation as well as the legislation of the jurisdictions in which the Company performs its operations.

Gazprom Neft cannot guarantee the absence of adverse changes in Russian legislation in the long term since most risk factors are out of its control. The negative impact of this risk category is mitigated by monitoring and timely reaction to changes made to various sections of legislation as well as active interaction with the legislative and executive authorities and public organizations on matters involving the interpretation, proper application, and improvement of legislative norms.

4.1. Risks associated with more sanctions from the EU and the U.S.
In 2014, the U.S. (taking into account the changes in U.S. sanctions in 2017), EU countries, and certain other nations imposed sanctions on the Russian energy sector and a number of Russian companies from different industries. Further sanctions could negatively impact the overall situation in the industry and also have a specific effect on the Company’s long-term projects and the ability of its counterparties to meet their obligations.

The sanctions have had a negligible effect on the Company’s business and financial condition. In response, the Company is implementing a targeted programme to phase out imported services and equipment. The Company has no grounds to believe that it will be specifically targeted by any new sanctions, but the sanctions may have a specific effect on the Company’s long-term projects. At present, based on an assessment of the impact of the sanctions, the Company does not believe that they will have a significant effect on the consolidated financial statement.

4.2. Political risks
The political situation in Russia is currently stable, as evidenced by the stability of the federal and regional branches. Gazprom Neft PJSC is registered as a taxpayer in St Petersburg, which is the second largest city in the Russian Federation and the administrative centre of the Northwest Federal District with significant natural resource potential, highly developed industry, and an extensive transportation network. Gazprom Neft PJSC has subsidiaries in the Central, Northwest, Urals, Volga, Siberian, and Far Eastern Federal Districts.

Overall, the Company regards the political situation within the country as stable and believes that there are currently no risks of negative changes.
Risk management measures

<table>
<thead>
<tr>
<th>Description</th>
<th>Risk management measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4.3. Risks associated with foreign assets</strong></td>
<td>The Company is implementing a number of foreign projects that aim to expand the geography of production operations. Entering new regions is associated both with the ability to obtain additional competitive advantages as well as the risks of underestimating the economic and political situation in countries where the Company’s assets are located, which subsequently may lead to the failure to achieve planned performance indicators. At present, Gazprom Neft assesses the level of risks associated with foreign assets as acceptable, however it cannot guarantee the absence of negative changes since the risks described are beyond the Company’s control.</td>
</tr>
<tr>
<td><strong>4.4. Corruption risks</strong></td>
<td>As the Company actively enters new international markets, the risk increases of U.S. or UK anti-corruption laws extending to it Gazprom Neft pursues a strategy of corruption risk management on an ongoing basis. The Company has approved an anti-fraud and anti-corruption policy, and all Gazprom Neft subsidiaries have been given recommendations to approve similar policies. All Gazprom Neft employees are required to review and comply with the policy requirements. In order to monitor corruption risks when working with third-party contractors, standard forms of anti-corruption reservations have been prepared and approved by an order of the Gazprom Neft CEO for inclusion in contracts with third parties (both Russian and foreign). The Company also has a permanent anti-fraud and anti-corruption hotline. An internal inspection is conducted in response to hotline complaints.</td>
</tr>
<tr>
<td><strong>4.5. Risks associated with changes to judicial practice on matters related to the Company’s operations</strong></td>
<td>In the existing system used to administer the law in the Russian Federation, the legal positions of the highest judicial instances (the Constitutional Court of the Russian Federation and the Supreme Court of the Russian Federation) that are capable of influencing the conditions for the Company to conduct business activities are of great importance Gazprom Neft regularly monitors decisions adopted by higher courts and also assesses trends in law administration practices that take place at the level of federal district arbitration courts while actively employing and utilizing such practices not only in defending its rights and legitimate interests in court, but also when settling legal issues that arise in the Company’s operations. In this regard, risks associated with a change in judicial practice are deemed to be insignificant. In 2014, the Supreme Arbitration Court and the Supreme Court of the Russian Federation were merged. The legal practice that has amassed since the merger on issues related to the activities of oil and gas companies is not yet sufficiently extensive, so it is difficult to forecast its further development with any certainty. Changes that may adversely affect the Company’s current and future litigation are possible, including in the practice of the Supreme Court.</td>
</tr>
<tr>
<td><strong>4.6. Risks associated with changes to the tax legislation of the Russian Federation</strong></td>
<td>The Gazprom Neft Group’s key companies are among the biggest taxpayers in the Russian Federation and pay federal, regional, and local taxes, in particular VAT, the corporate profit tax, mineral extraction tax, corporate property tax, and land tax. The taxation system of the Russian Federation is continuously evolving and improving. Potential growth in tax rates paid by the Company as part of its business operations may lead to increased costs and a reduction in the amount of cash at the Company’s disposal to finance its day-to-day operations and capital expenditures and meet its obligations, including on outstanding bonds. Virtually any company in Russia may potentially incur losses as a result of claims by the tax authorities that may arise for previous periods and day-to-day operations. However, the Company estimates such risks as average. The Company believes that the impact of the obligations arising as a result of such potential events on its operations would not be any more significant than the impact of similar obligations on other Russian oil sector companies with government participation. In order to mitigate risks related to changes in the tax legislation of the Russian Federation, Gazprom Neft carries out thorough work to analyse bills and legislative acts that have been adopted in tax legislation. The most significant recent changes to the tax legislation of the Russian Federation affecting the issuer’s activities include: ■ changes to the base rates of the Mineral Extraction Tax (MET), export duties, and excise taxes as a result of so-called ‘tax manoeuvring’; ■ changes to tax legislation concerning the taxation of the profit of controlled foreign companies and the revenue of foreign organizations as part of the ‘de-offshorization’ of the Russian economy that has been carried out since 2015; ■ the introduction of a formulaic procedure for calculating the MET for gas and gas condensate on 1 July 2014. The Company evaluates and predicts the extent of a possible negative impact from changes to the tax legislation of the Russian Federation and makes every effort to minimize risks related to such changes.</td>
</tr>
</tbody>
</table>
### 4.7. Risks associated with changes to the rules for customs control and duties

Gazprom Neft PJSC is involved in foreign economic relations and therefore exposed to risks associated with changes to the legislation of the Russian Federation concerning the government regulation of foreign trade activities as well as customs legislation governing relations to establish the procedure for the movement of goods across the customs border of the Russian Federation, establishing and applying customs regimes as well as establishing, introducing, and collecting customs payments. Another risk may be the ability of the Russian Government to change customs duty rates (both import and export) on certain goods for which the Company concludes foreign trade transactions as well as changes to the administration of law in matters concerning customs regulation. The primary adverse effect from this risk is an increase in expenses and lower export efficiency.

<table>
<thead>
<tr>
<th>Description</th>
<th>Risk management measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Company meets the requirements of the customs legislation of the Russian Federation, completes all documentation required for both export and import transactions in a timely manner, and has sufficient financial and human resources to comply with the standards and rules in matters of customs regulation and timely respond to changes in customs legislation and the law administration practice</td>
<td></td>
</tr>
</tbody>
</table>

### 5. STRATEGIC RISKS

#### 5.1. Risk of the failure to achieve strategic goals

The Company’s existing Strategy was drafted and approved by the Board of Directors in 2013 when the market environment was favourable. However, since 2014 there have been significant changes in the situation on the oil and petroleum products market as well as foreign policy conditions. In the long term, the state of the global fuel and energy industry depends on many factors that are hard to predict, such as the rate of economic growth, the level of international cooperation, the speed of technology development, and the intensity of the decarbonization policy. These factors determine the following key parameters of the environment in which the Company operates in addition to the oil and gas sector as a whole: the price of oil, the volume of petroleum product consumption, tax regulations, access to technology, and opportunities for international development.

Significant changes in the external environment may affect the Company’s ability to achieve its strategic goals.

The Company regularly monitors market trends and takes into account the threats and opportunities created by the instability of the external environment in its approaches to managing the project portfolio. The Company soundly distributes resources among major strategic projects, such as offshore development and the development of unconventional reserves as well as projects that ensure a rapid return on investment and hence the current sustainability of the Company.

An important tool for enhancing sustainability for the Company is also to increase efficiency in all processes through modernization, the use of new technologies, digitization, the development of competencies, and the increased safety of operations.

Focusing on flexibility in decision-making, technology development, greater operational efficiency, and safety enables the Company to annually demonstrate impressive results in its production activities and stable positive dynamics in financial and economic indicators. Despite significant changes in the external environment, the strategic goals set for 2025 remain achievable.

Nevertheless, the signing of the agreement by oil exporting OPEC+ countries on a reduction in production starting in 2017 and its prolongation in 2018 may lead to an adjustment in the pace at which the Company reaches its strategic level of hydrocarbon production (100 million TOE per year). The Company planned to reach this level as early as 2020 and maintain a production volume of at least 100 million TOE per year until 2025. At present, the likely scenario is to achieve the target production level by 2021–2022. At the same time, the strategic goal of maintaining the production level at a rate no lower than 100 million TOE until 2025 remains relevant and achievable.

### 6. PARTNER RISKS

#### 6.1. Risks associated with attracting partners

Given the unstable macroeconomic situation, attracting partners to implement joint projects is both a critical and difficult task. With the large-scale reduction in investment budgets, potential partners are curtailing their activities, and decisions to join new projects are being postponed indefinitely.

The sanctions that have been imposed since 2014 by the United States (taking into account the changes that were adopted in the U.S. sanctions in 2017), EU countries, and certain other states on the Russian energy sector create an additional constraint on the development of partnerships.

The Company conducts continuous work with potential partners and mulls the possibility of attracting partners from the Russian Federation and Asia-Pacific region countries that did not impose sanctions on offshore, Arctic, deep-water, and shale projects. Regular negotiations and meetings are held as part of this process, including with the involvement of representatives of the following government authorities: the Government of the Russian Federation, Russian Ministry of Energy, Ministry of Foreign Affairs and Ministry of Economic Development.
According to the Charter of Gazprom Neft PJSC, the Company’s charter capital consists of 4,741,299,639 common shares with par value of RUB 0.0016. As of the end of 2017, Gazprom Neft PJSC had no preferred shares.

The largest holder of Gazprom Neft PJSC shares is Gazprom PJSC, which directly and indirectly owns 95.68% of the Company’s total common shares. The remaining common shares (4.32%) are distributed among minority shareholders – individuals and legal entities. As of 31 December 2017, there were 8,515 non-zero personal accounts recorded in the shareholder register, including 16 legal entities and 8,499 individuals.
As of 31 December 2017, Gazprom Neft PJSC had capitalization of **RUB 1.157 TN**

### Listing

**Basic Information about the Shares and ADR of Gazprom Neft PJSC as of 31 December 2017**

<table>
<thead>
<tr>
<th>SHARE VALUE ON MOSCOW EXCHANGE</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB (closing price)</td>
<td>244.1</td>
<td></td>
</tr>
<tr>
<td>USD (closing price)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>52-week maximum price</td>
<td>263.3</td>
<td></td>
</tr>
<tr>
<td>52-week minimum price</td>
<td>181.1</td>
<td></td>
</tr>
</tbody>
</table>

**Value of 1 ADR on London Stock Exchange**

<table>
<thead>
<tr>
<th>USD (closing price)</th>
<th>21.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>52-week maximum price</td>
<td>22.65</td>
</tr>
<tr>
<td>52-week minimum price</td>
<td>15.15</td>
</tr>
</tbody>
</table>

**Trading Volume for Year**

<table>
<thead>
<tr>
<th>Moscow Exchange, RUB bn</th>
<th>10.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Stock Exchange (IOB system), USD mn</td>
<td>134.3</td>
</tr>
</tbody>
</table>

**Market Capitalization on Moscow Exchange**

| RUB mn | 1,157,351 |
| USD mn | 19,080.29 |

- Code in MICEX-RTS system / ISIN code: SIBN / RU000 906 2467
- Number of common shares: 4,741,299,639
- Nominal value of common shares, RUB: 0.0016
- Size of charter capital, RUB: 7,586,079.42
- Shares in free float, %: 4.32
- Number of ADR issued: 20,328,043
- Proportion of ADR in free float, %: 50
- Average monthly trading volume (IOB system), USD mn: 11.2
- Average monthly trading (MICEX), RUB mn: 888.4

The common shares of Gazprom Neft PJSC circulate in Russia on the main trading platforms of the unified exchange Moscow Exchange PJSC. Globally the Company’s shares trade in the form of American Depository Receipts (ADR), primarily in OTC trading in the UK via the LSE IOB system, in the U.S. via the OTCQx system as well as on the exchanges of Berlin and Frankfurt.

1 — Converted at the exchange rate of the Bank of Russia as of 31 December 2017.
2 — One ADR is equivalent to five common shares of Gazprom Neft PJSC.
Trading volume with Gazprom Neft PJSC shares on all trading platforms of the Moscow Exchange totalled RUB 11 billion (USD 183 million) in 2017. The ADR issued for the Company’s shares amounted to 0.10% of the cumulative trading volume in 2017 among the ADR of foreign companies traded on the London Stock Exchange in the IOB system, or USD 134 million.

As of the last trading day – 29 December 2017 – on the Moscow Exchange, the Company’s share price stood at RUB 244.1 per 1 common share (up 14.1% compared with the start of the year). The Company’s capitalization stood at RUB 1.157 trillion as of 31 December 2017.

The rouble-denominated quotes reached their highest levels over the entire history of Gazprom Neft PJSC in 2017, which is convincing proof of the market’s recognition of the Company’s operational results. Growth in hydrocarbon production, the active development of new production projects, a high proportion of refining, and expanded sales in the premium segments are all factors that resulted in the Company’s value growing to record levels.
TRADING VOLUME DYNAMICS OF GAZPROM NEFT PJSC SHARES ON THE MOSCOW EXCHANGE IN 2017 (%)

Source: BBG

COMPARATIVE DYNAMICS OF GAZPROM NEFT PJSC SHARE TRADING, THE MICEX INDEX, AND URALS QUOTATIONS

Source: BBG

PARTICIPATION IN DEPOSITORY RECEIPTS PROGRAMME

American and Global Depository Receipt programmes continued throughout 2017 for the Company’s shares trading on the OTC market of the U.S., UK, Germany, and other countries. One ADR is equal to five common shares of Gazprom Neft PJSC. The depository bank for the Company’s depository receipt programme is The Bank of New York Mellon.

As of the end of 2017, the total number of ADR issued for common shares was equal to 101 million shares (2.1% of the Company’s charter capital). The decrease in the total number of ADR issued for common shares is due to the current redemption of ADR over the course of the year amidst restrictions on the issue of new ADR.

Trading volume with the ADR of Gazprom Neft PJSC totalled USD 134.79 million in 2017, including USD 134.29 million on the IOB London Stock Exchange and USD 0.5 million on the OTCQx. Average monthly trading on the IOB LSE totalled USD 11.2 million.
DIVIDEND POLICY

The dividend policy is one of the most important components of corporate governance and a key indicator of the Company's observance of its shareholders' rights.

The Gazprom Neft PJSC Regulation on the Dividend Policy is designed to ensure that the mechanism used to determine the amount of dividends and the procedure for their payment is as transparent as possible for shareholders and all stakeholders and also describes the approach of the Company's Board of Directors to preparing recommendations for the General Meeting of Shareholders on the amount of dividends to be paid on the Company’s shares, the date as of which shareholders must be registered to receive dividends, and the procedure for their payment.

The main principles of the Gazprom Neft PJSC dividend policy are:

- ensuring the maximum transparency of the mechanism used to determine the amount of dividends and the procedure for their payment:
  - the Dividend Policy Regulation specifies the minimum amount of dividend payments on the Company’s shares – this amount must not be less than the largest of the following indicators:
    - 15% of the Gazprom Neft Group’s consolidated financial result as determined in accordance with IFRS;
    - 25% of the Company’s net profit as determined in accordance with RAS;
- compliance with the standards of the existing laws of the Russian Federation as well as the Company’s Charter and internal documents;
- each shareholder recorded in the shareholder register as of the date determined by the General Meeting of Shareholders at which the decision is made to pay dividends is entitled to receive dividends. This date may not be set earlier than 10 days from the date of the decision to pay [announce] dividends or 20 days later from the date of this decision;
- commitment to high corporate governance standards;
- the Company adheres to the principle of ensuring positive dynamics in dividend payments, subject to growth in the Company’s net profit;
- the approved Gazprom Neft PJSC Dividend Policy Regulation is posted on the Company’s official website, which also details the Company’s dividend payment history.

The approved Dividend Policy Regulation of Gazprom Neft PJSC is available at:
http://ir.gazprom-neft.com/vnutrennie-dokumenty/
## DIVIDEND HISTORY

### COMPANY’S DIVIDEND HISTORY

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>9M 2017¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of dividends accrued per one share, RUB</td>
<td>9.38 (including dividends for H1 2013)</td>
<td>6.47 (including dividends for H1 2014)</td>
<td>6.47 [including dividends for H1]</td>
<td>10.68</td>
<td>10.0</td>
</tr>
<tr>
<td>Total amount of dividends accrued per share of a particular category, RUB</td>
<td>44,473,390,614</td>
<td>30,676,208,664</td>
<td>30,676,208,664</td>
<td>50,637,080,144</td>
<td>47,412,996,390</td>
</tr>
<tr>
<td>Percentage of US GAAP/IFRS net profit</td>
<td>25</td>
<td>25</td>
<td>28</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Compilation date of list of persons entitled to receive dividends</td>
<td>23/06/2014</td>
<td>22/06/2015</td>
<td>27/06/2016</td>
<td>26/06/2017</td>
<td>29/12/2017</td>
</tr>
<tr>
<td>Meeting date of issuer’s governing body at which the decision was made to pay dividends and the date and number of the minutes</td>
<td>06/06/2014 Minutes No. 0101/01 dated 10/06/2014</td>
<td>05/06/2015 Minutes No. 0101/01 dated 09/06/2015</td>
<td>10/06/2016 Minutes No. 0101/01 dated 14/06/2016</td>
<td>09/06/2017 Minutes No. 0101/01 dated 14/06/2017</td>
<td>15/12/2017 Minutes No 0101/02 dated 20/12/2017</td>
</tr>
<tr>
<td>Deadline given for payment of declared dividends</td>
<td>before</td>
<td>before</td>
<td>before</td>
<td>before</td>
<td>before</td>
</tr>
<tr>
<td>Form and other conditions of payment of declared dividends</td>
<td>In cash form</td>
<td>In cash form</td>
<td>In cash form</td>
<td>In cash form</td>
<td>In cash form</td>
</tr>
<tr>
<td>Proportion of dividends paid in the total amount of announced dividends for shares of this category (type) (%)</td>
<td>99.99</td>
<td>99.99</td>
<td>99.96</td>
<td>99.98</td>
<td>99.99</td>
</tr>
</tbody>
</table>

¹ — 20 April 2018. The Company’s Board of Directors recommended that the General Meeting of Shareholders pay dividends of RUB 15 per share (taking into account previously paid dividends for the first 9 months of 2017).

## COMPARISON OF TOTAL RETURN

### SHAREHOLDER’S TOTAL RETURN IN 2017

Source: Company data, Moscow Exchange PJSC

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Gazprom Neft</th>
<th>LUKOIL</th>
<th>Rosneft</th>
<th>Tatneft</th>
<th>NOVATEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price at start of period [03/01/2017], RUB</td>
<td>222.60</td>
<td>3,575.00</td>
<td>419.50</td>
<td>445.20</td>
<td>783.00</td>
</tr>
<tr>
<td>Price at end of period [29/12/2017], RUB</td>
<td>244.10</td>
<td>3,334.50</td>
<td>291.50</td>
<td>478.80</td>
<td>677.70</td>
</tr>
<tr>
<td>Growth in market value, %</td>
<td>9.7</td>
<td>(6.7)</td>
<td>(30.5)</td>
<td>7.5</td>
<td>(13.4)</td>
</tr>
<tr>
<td>Dividends</td>
<td>10.68</td>
<td>195.00</td>
<td>5.98</td>
<td>22.81</td>
<td>13.90</td>
</tr>
<tr>
<td>Dividend yield, %</td>
<td>4.8</td>
<td>5.5</td>
<td>1.4</td>
<td>5.1</td>
<td>1.8</td>
</tr>
<tr>
<td>TSR, %</td>
<td>14.5</td>
<td>(1.3)</td>
<td>(29.1)</td>
<td>12.7</td>
<td>(11.7)</td>
</tr>
</tbody>
</table>

## DEBT PORTFOLIO AND CREDIT RATINGS

As far as funding for its activities, Gazprom Neft relies both on internal funding sources generated by income from operating activities as well as borrowed funds. When determining the ratio of debt and internal financing within the capital structure, the Company seeks to achieve an optimal balance between the overall value of capital, on the one hand, and ensuring long-term sustainable development, on the other hand.
The Company adheres to a rather conservative debt financing policy. One of the key principles of the debt policy is to ensure a high level of financial sustainability for which an important indicator is the ‘Net Debt/EBITDA’ ratio and ‘Consolidated financial debt/consolidated EBITDA’ ratio as calculated for the Gazprom Neft Group. According to the terms of the Company’s loan agreements, the value of the ‘Consolidated financial debt/consolidated EBITDA’ ratio should not exceed 3. As of the end of the reporting period (and also over the five-year period preceding the reporting date), the ratio’s value was lower than the specified threshold.

The other conditions of loan agreements and issuing documentation on bonds and Eurobonds were also observed in full during the reporting period.

As of the end of 2017, the Company’s debt portfolio included such debt financing instruments as bilateral credit facilities (including revolving facilities), syndicated credit facilities, local bonds, Eurobonds, and a credit under the guarantee of the Export Credit Agency (ECA). The diversified structure of the Company’s debt portfolio makes it possible to maintain a flexible borrowing policy given the volatility of the debt capital markets.

When raising debt financing, the Company takes into account the specifics of the activities being funded as well as conditions on debt capital markets.

Based on this principle, Gazprom Neft had the following borrowings in 2017:

- five placements of local bonds for a total of RUB 70 billion. The coupon rate was one of the lowest on the market as of the placement date for the relevant bond issues among Russian corporate borrowers that are comparable with the Company in terms of ratings;
- the drawdown of RUB 76.3 billion under loan agreements signed in 2016-2017 (excluding drawdowns for unscheduled refinancing for the purpose of improving the attributes of the Gazprom Neft Group’s debt portfolio).

The aforementioned borrowed funds were used for general corporate purposes.

The Company also repaid RUB 326.0 billion in previously received borrowings in 2017, including the unscheduled repayment of RUB 256.9 billion in order to improve the attributes of the Gazprom Neft Group’s debt portfolio.

As a result of the Company’s borrowings and repayments described above, changes to the debt of other companies of the Gazprom Neft Group (NIS a.o. Novi Sad, Gazpromneft-Moscow Oil Refinery JSC, and others), and the rouble revaluation of borrowings denominated in foreign currency, the debt portfolio of the Gazprom Neft Group increased from RUB 676.4 billion as of 31 December 2016 to RUB 680.4 billion as of 31 December 2017.

### DEBT/EBITDA RATIO

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt/EBITDA</td>
<td>0.59</td>
<td>1.44</td>
<td>1.90</td>
<td>1.60</td>
<td>1.19</td>
</tr>
<tr>
<td>Debt/EBITDA</td>
<td>0.99</td>
<td>1.87</td>
<td>2.37</td>
<td>1.68</td>
<td>1.39</td>
</tr>
<tr>
<td>Debt/EBITDA threshold</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>
KEY ATTRIBUTES OF THE DEBT PORTFOLIO

Long-term borrowings dominate the Gazprom Neft Group’s debt portfolio in terms of maturity date, thus minimizing the risk of the inability to refinance debt in 2018.

DEBT PORTFOLIO STRUCTURE BY FOREIGN CURRENCY (%)

Source: Company data

<table>
<thead>
<tr>
<th>Currency</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>15.33</td>
<td>12.62</td>
<td>10.86</td>
<td>12.76</td>
<td>15.42</td>
</tr>
<tr>
<td>USD</td>
<td>59.04</td>
<td>70.25</td>
<td>73.15</td>
<td>56.18</td>
<td>44.93</td>
</tr>
<tr>
<td>RUB</td>
<td>25.50</td>
<td>17.10</td>
<td>15.96</td>
<td>31.03</td>
<td>39.62</td>
</tr>
<tr>
<td>Other</td>
<td>0.13</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
</tbody>
</table>

STRUCTURE OF DEBT PORTFOLIO (RUB MN)

Source: Company data

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term loans and borrowings</td>
<td>52,413</td>
<td>61,121</td>
<td>147,319</td>
<td>80,187</td>
<td>131,760</td>
</tr>
<tr>
<td>Long-term loans and borrowings</td>
<td>261,455</td>
<td>502,306</td>
<td>670,779</td>
<td>596,211</td>
<td>548,654</td>
</tr>
</tbody>
</table>

DEBT REPAYMENT SCHEDULE

Based on the Gazprom Neft Group’s debt repayment schedule, the Company does not anticipate any significant increase in the debt refinancing burden in 2018–2019. However, given the Company’s measures to meet the needs of future periods, this increase is not expected to have a negative effect on the Gazprom Neft Group.

In 2017, the Company repaid previous borrowings for a total of RUB 326 BN.

POTENTIAL INSTRUMENTS FOR ATTRACTING FINANCING IN 2018

The Company not only fulfilled its Financial Borrowing Programme in 2017 utilizing the most effective tools, but also took a number of important steps to ensure its ability to attract financing in 2018, including the signing of several loan agreements with major Russian banks.

The Group is considering various options for financing in 2018, including but not limited to rouble-denominated bonds, credit facilities, and project financing.

In order to ensure the ability to promptly raise debt financing in the form of a local bond issue, the Company registered a multi-currency Exchange Bond Programme in 2015. The undrawn limit under the programme was the equivalent of RUB 30 billion as of the end of 2017. The Programme remains in effect for 30 years, thus enabling the Company to promptly organize an issue(s) of exchange bonds for a period of up to 30 years inclusive if the need arises. The Company is also actively involved in improving legislation on the securities market as regards the placement and circulation of local bonds as part of the Bond Issuers Committee of the Moscow Exchange.
CREDIT RATINGS

In July 2017, Russia’s Analytical Credit Rating Agency (ACRA) assigned Gazprom Neft a high long-term credit rating of AAA (RU) with a stable outlook for the first time. The credit rating was assigned according to the national scale for the Russian Federation.

In 2017, the Chinese rating agency Dagong Global Credit Rating upgraded Gazprom Neft’s credit rating from negative to stable.

In 2017, the following international rating agencies upgraded Gazprom Neft’s credit rating:
- Standard & Poor’s outlook – positive;
- Fitch outlook – positive;
- Moody’s outlook – stable.

Events after the reporting date:
- Moody’s upgraded its rating to Baa3 with a positive outlook in January 2018;
- Standard & Poor’s upgraded its rating to BBB− with a stable outlook in February 2018.

In 2017, the Chinese rating agency Dagong Global Credit Rating upgraded Gazprom Neft’s credit rating from negative to stable.

In 2017, the following international rating agencies upgraded Gazprom Neft’s credit rating:
- Standard & Poor’s outlook – positive;
- Fitch outlook – positive;
- Moody’s outlook – stable.

Events after the reporting date:
- Moody’s upgraded its rating to Baa3 with a positive outlook in January 2018;
- Standard & Poor’s upgraded its rating to BBB− with a stable outlook in February 2018.

CREDIT RATINGS OF GAZPROM NEFT PJSC AS OF MARCH 2018

CREDIT RATINGS OF GAZPROM NEFT PJSC

In 2017, the Chinese rating agency Dagong Global Credit Rating upgraded Gazprom Neft’s credit rating from negative to stable.
INTERACTION WITH INVESTORS AND SHAREHOLDERS

The Company regularly holds conference calls for investors involving Company executives. In addition, Gazprom Neft each quarter publishes an Analysis of the Management of the Company’s Financial Condition and Performance Results – an appendix to the Gazprom Neft Group’s IFRS financial statement. The Databook and Datafeed statistical reference guides are also published for a detailed analysis of the Company’s operations.

In order to provide the most complete level of awareness, Gazprom Neft regularly holds meetings with investors and shareholders and takes part in all major conferences of investment and brokerage organizations. The Company holds the annual Investor’s Day event each year involving senior Gazprom Neft executives at which analysts and investors from investment companies can get first-hand answers to all of their questions.

Gazprom Neft regularly shows off its own production assets to investors and analysts by organizing onsite meetings at production and extraction sites.

RECOGNITION OF GAZPROM NEFT REPORTS AND WEBSITE IN 2017

The Company’s corporate reporting and corporate website regularly receive high praise from expert commissions and juries at Russian and foreign contests.

Competition of annual reports held by the Moscow Exchange and the RCB media group (Russia)
- Winner in the ‘Best Interactive Report’ category
- Winner in the ‘Best Corporate Social Responsibility and Sustainable Development Report’ category

LACP (U.S.)
- Gold in the ‘Oil and Gas Industry’ category

Corporate Financial Awards (UK)
- Bronze in the ‘Best Online Report: International’ category
FAQ BY INVESTORS

How much capital investment is planned for 2018? Does the Company expect to expand its investment programme with the start of the second modernization phase to increase refining depth?

The investment programme is expected to be at the level of the 2017 programme. At the same time, we expect that the ratio of investment for refining will increase since the projects in the second stage of oil refinery modernization have entered the active phase. The completion of these projects will significantly improve the technical level and profitability of our refineries.

Is it true that even if the OPEC+ deal is prolonged, the plans for production volumes at new projects will not be revised? If so, what are your expectations for production at the Novoportovskoye, Prirazlomnoye, and East Messoyakha fields for 2018?

Of course, our main priority right now is the development of new projects. Due to OPEC+ constraints, the Company has seen the rate of decline in production at mature fields increase, but for us this is a tool for regulation in accordance with the current market situation. We believe that once the quota to reduce production as part of OPEC+ decreases, we will be able to quickly resume production at mature fields. Production at new projects will not be restricted. In 2018, planned production will be about 6.8 million tonnes for the Novy Port project, roughly 4.3 million tonnes for the Messoyakha project (100% share of the project), and approximately 3.6 million tonnes for the Prirazlomnoye field.

What work is planned at the Ayashsky license area in 2018 in connection with the field’s discovery? What production volumes and timeframe might we be talking about?

According to preliminary estimates, the new Neptune field has geological reserves of 255 million tonnes of oil equivalent. In 2018, we plan to conduct an ongoing estimate of reserves and approve it. We will also assess potential output. It’s still too early to talk about specific figures. The Neptune deposit is slated to be incorporated into development before 2025. In doing so, the Company is forming a long-term production asset portfolio.
1. **How has the OPEC+ deal affected the financial results of Gazprom Neft PJSC?**

It’s safe to say that the Company has benefited: the growth in oil prices has more than made up for the effect from the containment in production. It’s hard to demonstrate this in absolute figures, but maximum optimization has been seen in production and concentration at high-efficiency wells.

2. **How much oil does the Company plan to refine in 2018?**

In 2017, the Company’s refineries refined 40.1 million tonnes of oil, a decrease of 1.8 million tonnes compared with 2016, due to the following objective factors: the full-scale reconstruction of the catalytic cracking unit at the Moscow Oil Refinery and scheduled repairs at the Omsk Oil Refinery.

In 2018, oil refining is planned at the level of 2016. Everything will depend on the market conditions and the efficiency of refining.

3. **How big is the borrowing programme for 2018? How comfortable is the Company with the current level of debt?**

The amount of borrowings in 2018 is expected to be at the level of repayments. The loan portfolio is not likely to change – the Company’s total debt has not increased for two years. As for the current level of debt, the Company is comfortable with it. As of 31 December 2017, the net debt/EBITDA ratio was 1.2. This is a very good indicator for a rapidly growing company.

We see no need to reduce the loan portfolio of Gazprom Neft PJSC given such a low net debt/EBITDA ratio and the Company’s current sustainability, but we don’t plan to increase it either. With a positive free cash flow, we have enough money to finance the investment programme.

4. **State-owned companies face the challenge of transitioning to spending 50% of their net profit on dividends. If Gazprom PJSC switches to this amount of payments, is Gazprom Neft ready to follow suit?**

Given the positive free cash flow and comfortable level of debt, Gazprom Neft PJSC has the necessary financial resources to transition to this amount of payments. However, it must be kept in mind that the dividend policy is a matter of balance. For investors, it’s important that they have a decent return that is based on the size of dividends and growth in the value of shares. In 2017, Gazprom Neft PJSC became the industry leader in terms of total shareholders return. The Company is increasing dividends. They are growing on a per share basis. For 2017, dividends are expected to increase by more than 30% compared with 2016.