

## REPORT ON PRIORITY WORK PERFORMED BY THE GAZPROM NEFT PJSC BOARD OF DIRECTORS IN 2017

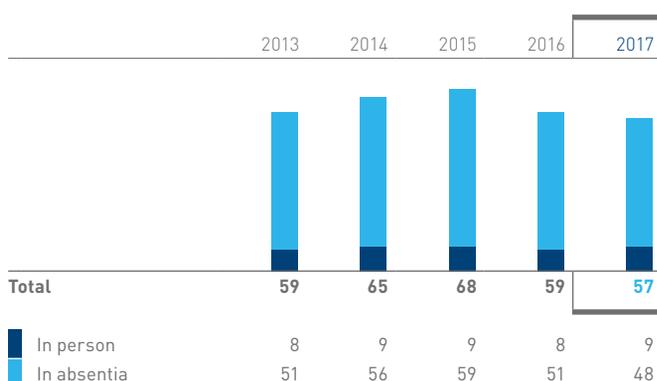
In the course of its work, the Board of Directors consistently implemented the main objectives in the priority areas of activities of Gazprom Neft PJSC, including strategic development, increasing investment appeal, ensuring effective monitoring of the administration of assets, investment, financial 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

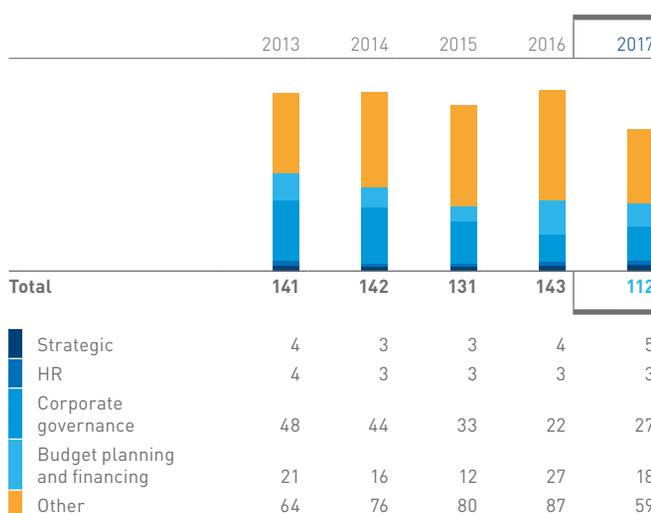


### STATISTICS ON THE PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS IN 2017

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.

### STRUCTURE OF ITEMS CONSIDERED BY THE BOARD OF DIRECTORS IN 2013-2017 BY THEME

Source: Company data



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

Board of Directors Member		Number of meetings attended by the Member of the Board of Directors <sup>3</sup>	Total number of meetings the Member of the Board of Directors could have attended
<b>A. B. Miller</b>	Chairman of the Board of Directors, Non-executive Director	57	57
<b>V. A. Golubev</b>	Non-executive Director	57	57
<b>A. V. Kruglov</b>	Non-executive Director	57	57
<b>N. N. Dubik</b>	Non-executive Director	57	57
<b>K. G. Seleznev</b>	Non-executive Director	57	57
<b>A. V. Dyukov</b>	Executive Director	50	57
<b>V. I. Alisov</b>	Non-executive Director	57	57
<b>V. V. Cherepanov</b>	Non-executive Director	56	57
<b>M. L. Sereda</b>	Non-executive Director	57	57
<b>S. A. Fursenko</b>	Independent Director	57	57
<b>E. V. Mikhailova</b>	Non-executive Director	57	57
<b>V. P. Serdyukov</b>	Independent Director	57	57
<b>M. M. Garayev</b>	Non-executive Director	57	57

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.

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**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;**
- **the approval of the Report on the Implementation of the Innovation Development Programme of Gazprom Neft PJSC for 2016;**
- **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.

The Board of Directors outlined strategic indicators for the Gazprom Neft Group's activities in 2018–2020 and approved the Gazprom Neft Group's Budget (financial plan) for 2018, including the Financial Borrowing Programme, the Gazprom Neft Group's Investment Programme for 2018, and the Gazprom Neft Group's Cost Optimization (Reduction) Programme for 2018.

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

Indicator	2015	2016	2017
Number of meetings	8	11	12
Number of items considered	22	30	34

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;