

## 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- The Company's internal documents envisage a procedure to update outdated information about shareholders, which is periodically implemented jointly with the registrar.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.

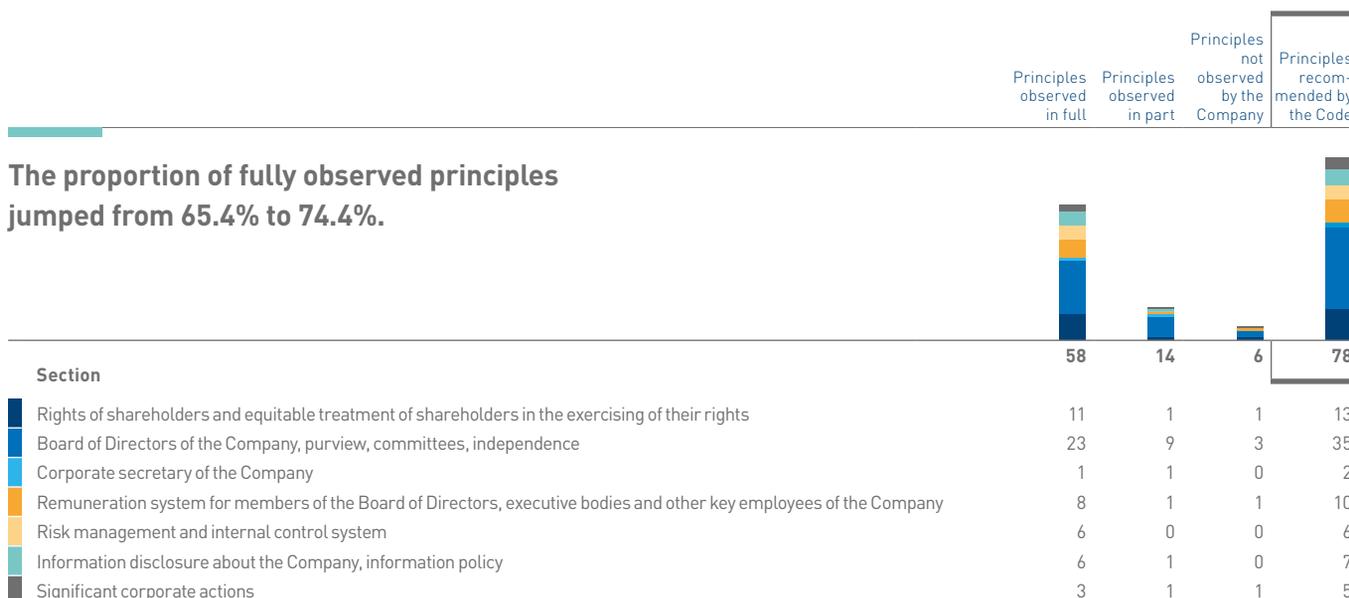
## SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

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<sup>1</sup>

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



<sup>1</sup> — Statistics are presented on the basis of the Report on the Observance of the Principles and Recommendations of the Code of Corporate Governance recommended by the Central Bank of the Russian Federation in Information Letter No. IN-06-52/8 dated 17 February 2016.

## 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 structure of the Gazprom Neft Group is presented in Appendix 4, p. 259

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 organisations 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 organisations;
- contributions by a subsidiary to the property of other organisations;
- the issuance and placement of shares by a subsidiary;
- the reorganisation 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 organisations 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 organisation that is part of the Gazprom Neft Group in another organisation, 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 organisations (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 Noyabrsky and South Noyabrsky 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 spun-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 established<sup>1</sup>;
- 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;

<sup>1</sup> — 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 (CA) 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 organisational 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](http://www.gazprom-neft.com)), the annual report and sustainable development report, as well as the website's dedicated IR section ([ir.gazprom-neft.com](http://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.