

REMUNERATION FOR MEMBERS OF MANAGEMENT BODIES

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

Name	Position	Holds government positions and civil service positions	Amount, RUB
A. B. Miller	Chairman of the Board of Directors	No	34,214,850
V. I. Alisov	Member of the Board of Directors	No	22,809,900
M. M. Garayev	Member of the Board of Directors	No	22,809,900
V. A. Golubev	Member of the Board of Directors, Member of the Audit Committee	No	25,090,890
N. N. Dubik	Member of the Board of Directors, Member of the Audit Committee, Chairman of the Human Resources and Remuneration Committee	No	28,512,375
A. V. Kruglov	Member of the Board of Directors, Member of the Audit Committee, Member of the Human Resources and Remuneration Committee	No	25,090,890
E. V. Mikhailova	Member of the Board of Directors	No	22,809,900
K. G. Seleznev	Member of the Board of Directors	No	22,809,900
M. L. Sereda	Member of the Board of Directors, Chairman of the Audit Committee	No	26,231,385
V. P. Serdyukov	Member of the Board of Directors	No	22,809,900
S. A. Fursenko	Member of the Board of Directors, Member of the Human Resources and Remuneration Committee	No	25,090,890
V. V. Cherepanov	Member of the Board of Directors, Member of the Human Resources and Remuneration Committee	No	25,090,890
A. V. Dyukov	Executive Member of the Board of Directors	No	No remuneration paid
TOTAL			303,371,670

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

Indicator	2017, adjusted plan	2017, actual
Normalized consolidated earnings before interest, taxes, and depreciation (EBITDA), RUB bln	492.8	551
Economic value added (EVA), RUB bln	(20.4)	24.9
Return on average capital employed (ROACE), ¹ %	11.7	13.9
Debt capital to EBITDA ratio	1.64	1.19
Value of total proved reserves taking into account the proportion in affiliates, ² mln TOE	3,558	3,615
Reserve-replacement ratio (RRR), %	62	118
Production volume, mln TOE	89.4	89.75
Oil refining volume, mln t	39.3	40.11
Volume of premium petroleum product sales, mln t	25.6	26.13
Refining depth, %	82.0	83.5
Labour productivity, RUB mln / person	31.79	33.66

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

Powers	Authorized person / authorized body
<ul style="list-style-type: none"> ■ Approval of the investment programme, financial plan, cost optimization programme, and strategic target indicators (STI), which are the basis for the establishment of goals and the approval of the planned KPI values of the CEO 	Board of Directors
<ul style="list-style-type: none"> ■ Approval of the results of the implementation of the investment programme, financial plan, cost optimization programme, and strategic target indicators (STI), which are the basis for summarizing the annual KPI results and the approval of the annual bonus of the CEO 	
<ul style="list-style-type: none"> ■ Signing of an order on the payment of the annual bonus 	CEO or a person authorized by the CEO

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 (THOUSAND RUB)

Indicator	Board of Directors	Management Board	Total
Remuneration for participating in management bodies	303,371.67	–	303,371.67
Salary	–	679,479.75	679,479.75
Bonuses	–	584,713.98	584,713.98
Other payments	–	20,639.99	20,639.99
TOTAL	303,371.67	1,284,833.72	1,588,205.39

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;