

In 2016, the Board of Directors considered the Report on the Implementation of the Gazprom Neft PJSC Innovative Development Programme for 2015. The Gazprom Neft PJSC Innovative Development Programme until 2020 was approved by the Board of Directors in 2013 and contains information about the main areas of the Company's innovative development, plans for interaction with external organisations as well as key innovative development efficiency indicators. The Board of Directors deemed the implementation of the Gazprom Neft PJSC Innovative Development Programme to be a success in 2015. The Company fulfilled the main measures envisaged by the medium-term plan and achieved the targets for the most important innovative activity efficiency indicators reflecting the level of technological development and efficiency.

CORPORATE GOVERNANCE

Per the recommendations of the Code of Corporate Governance, the Board of Directors annually considers an assessment of the state of corporate governance at the Company and conducts a self-assessment of its own activities within the Board of Directors.

The Board of Directors took under advisement information about measures to improve corporate governance at Gazprom Neft PJSC in 2015.

Starting in 2016, the Board of Directors introduced the practice of considering reports on the work of its committees: the Audit Committee and the Human Resources and Remuneration Committee. The Board noted that the Committees fully met the goals, objectives and functional duties prescribed by the Code of Corporate Governance, the Regulation on Committees, the resolutions of the Company's Board of Directors and the Committee Work Plan for 2015.

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 2016):

- > M. L. Sereda (Chairman)
- > V. A. Golubev
- > N. N. 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

| | 2015 | 2016 |
|---|------|------|
| Number of meetings | 8 | 11 |
| Number of items considered | 22 | 30 |
| Number of items considered for meetings of the Board of Directors | 7 | 10 |

The Audit Committee held 11 meetings in 2016 and considered the following key issues in accordance with the approved work plan:

- > The approval of the work plan of the Gazprom Neft PJSC Internal Audit Department for 2016-2018.
- > The report on the results of the Gazprom Neft PJSC Internal Audit Department's activities for 2015 and the first half of 2016.
- > The consideration of the Company's draft annual report for 2015.

- > The consideration of the results of the Gazprom Neft PJSC External Auditor's activities for 2015.
- > The candidacy of the Gazprom Neft PJSC External Auditor for 2016.
- > Approaches to the external audit, plan and procedures for conducting the external audit of Gazprom Neft PJSC in 2016.
- > The independent external assessment of the Gazprom Neft PJSC Internal Audit Department's activities and interim results of the assessment.
- > The determination of the amount of remuneration for the auditor's services for 2016.
- > The results of measures to manage the information security risks of Gazprom Neft PJSC based on the first half of 2016.
- > The results of measures to manage the man-made and professional risks in industrial and occupational safety of Gazprom Neft PJSC based on the first half of 2016.
- > The results of measures to manage the credit risks based on the first half of 2016, including those associated with bad debt and the write-off of uncollectable debt.
- > Approaches to the strategy for hedging transactions and their impact on the expected financial result of Gazprom Neft PJSC in 2016.
- > The new form of the audit report for 2016. Key audit issues that will be included in the audit report.

The Audit Committee considered the following internal documents:

- > The work plan of the Internal Audit Department for 2016-2018;
- > The procedure for conducting an external assessment of the Gazprom Neft PJSC Internal Audit Department's activities.
- > The internal audit policy of Gazprom Neft PJSC.
- > The internal audit guarantee and improved quality programme for 2015.
- > The policy for the external auditor's provision of non-audit services to Gazprom Neft PJSC.

Audit Committee members attended all the meetings, and representatives of the external auditor, members of the Management Board, head of the Internal Audit Department and Company department heads were invited to Committee meetings based on the matters considered.

The report on the Audit Committee's work was considered at a meeting of the Board of Directors in 2016. The Board noted that the Audit Committee fully met the goals, objectives and functional duties prescribed by the Code of Corporate Governance, the Regulation on Committees, the resolutions of the Company's Board of Directors and the Committee Work Plan for 2016.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee is an advisory body under the Board of Directors.

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 Human Resources and Remuneration Committee.

In accordance with the Regulation, the Committee's main tasks are to provide a preliminary comprehensive analysis of items falling within the purview of the Board of Directors and prepare recommendations for the Board of Directors to adopt decisions concerning the Company's activities in human resources and remuneration for members of governing bodies and the Company's Audit Commission.

The Human Resources and Remuneration Committee is comprised of four non-executive directors (elected by the Board of Directors on 20 June 2016):

- > N. N. Dubik (Chairman)
- > A. V. Kruglov
- > V. V. Cherepanov
- > S. A. Fursenko (independent director)

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

| | 2015 | 2016 |
|---|------|------|
| Number of meetings | 6 | 7 |
| Number of items considered | 10 | 10 |
| Number of items considered for meetings of the Board of Directors | 5 | 5 |

The Audit Committee held seven meetings in 2016 and considered the following key issues:

- > remuneration for members of the Board of Directors and Audit Commission;
- > the results of a performance effectiveness assessment of the Company's Board of Directors;
- > the participation of members of the Gazprom Neft Management Board in the governing bodies of other organisations;
- > the criteria for the performance effectiveness assessment of the Audit Committee under the Gazprom Neft PJSC Board of Directors;
- > the results of the performance effectiveness assessment of the Audit Committee under the Gazprom Neft PJSC Board of Directors;
- > the appointment of the Gazprom Neft PJSC CEO.

The Committee conducted an assessment of the activities of the Board of Directors and the Audit Committee which noted positive trends in the Board's work (due to an increase in the number of items submitted for discussion) and the active participation of Board members.

In addition, the Committee decided to conduct a performance effectiveness assessment of the Audit Committee under the Gazprom Neft PJSC Board of Directors based on a survey of members of the Audit Committee of the Board of Directors according to the approved criteria for the effectiveness assessment. The assessment results were considered by the Committee and it was noted that the Audit Committee fully met the goals, objectives and functional duties prescribed by the Code of Corporate Governance, the Regulation on Committees, the resolutions of the Company's Board of Directors and the Committee Work Plan for the year.

As regards preparing information (materials) for the Annual General Meeting of Shareholders, the Committee regularly conducts a preliminary assessment of candidates for election to the Board of Directors.

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.

The Board of Directors considered a report on the work of the Human Resources and Remuneration Committee in 2016.

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:

- > 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.
- > 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.
- > 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.
- > Review of the Company's main documents, guidelines for Board members and a description of the main business matters, internal procedures and the organisational management of the Board of Directors and its committees.
- > 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 2016.