

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.

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 The Company's internal documents envisage a procedure to update outdated information about shareholders, which is periodically implemented jointly with the registrar.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

The corporate governance practice of Gazprom Neft PJSC features the following positive aspects in terms of the activities of governance and control bodies:

- > 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.
- > Gazprom Neft PJSC has established an internal unit that is responsible for performing key risk management functions and drafted a regulatory and methodological risk management framework.
- > The Company provides comprehensive regulation of conflicts of interests among executive body members.
- > The Internal Audit Department is subordinate to the Board of Directors and its functions are consistent with the recommendations of best corporate governance practices.

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.

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.

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

- > The Company has approved and introduced internal documents governing corporate social responsibility matters.
- > 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 GOVERNANCE¹

Section	Principles recommended by the Code	Principles observed in full	Principles observed in part	Principles not observed by the Company
Rights of shareholders and equitable treatment of shareholders in the exercising of their rights	13	9	3	1
Board of Directors of the Company, purview, committees, independence	35	21	12	2
Corporate secretary of the Company	2	1	1	0
Remuneration system for members of the Board of Directors, executive bodies and other key employees of the Company	10	8	1	1
Risk management and internal control system	6	5	1	0
Information disclosure about the Company, information policy	7	5	2	0
Significant corporate actions	5	2	2	1
TOTAL	78	51	22	5

¹ Statistics provided based on the Report on Compliance with 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 137 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 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.

PRIMARY CHANGES TO THE CORPORATE STRUCTURE OF GAZPROM NEFT

A centralised energy service enterprise called Gazpromneft-Energy Service LLC in which the sole participant is Gazprom Neft PJSC was established in order to provide energy services to the Gazprom Neft Group's production assets located in the Moscow and Omsk regions.

Gazpromneft-Catalytic Systems (100% of the charter capital is owned by Gazprom Neft PJSC) was established within the structure of the Gazprom Neft Group to implement a project to build catalytic cracking catalyst and hydrogenating process catalyst production facilities. Gazprom Neft's large-scale project to develop catalyst production at the Omsk Oil Refinery entails the construction of a modern high-tech complex to manufacture domestic catalytic cracking catalysts as well as hydrotreating and hydrocracking catalysts (not currently manufactured in Russia). These include catalysts for key secondary oil refining processes that ensure the production of Euro-5 motor fuels.

The Omsk Oil Refinery currently has catalyst production capacity of approximately 3,000 tonnes of products per year. The Gazprom Neft project, which is intended to be carried out over the period until 2020, involves the construction of a state-of-the-art production facility for hydrogenation catalysts with capacity of 6,000 tonnes per year and catalytic cracking catalysts with capacity of 15,000 tonnes per year. Thus, the Omsk Oil Refinery will have combined catalyst production of 21,000 tonnes, which will make it possible to fully meet the Russian oil refining industry's demand for catalytic cracking catalysts and hydrogenation catalysts.

In June 2016, Gazpromneft-Lubricants acquired 100% shares/interest in the assets of the Rospolikhim Group of Companies: Sovkhimtekhn CJSC, Poliefir LLC and BSV-KHIM LLC.

As a result of the transaction, the Gazprom Neft Group acquired an asset with a full ester production cycle. The assets have maximum production capacity of 5,450 tonnes per year. Apart from real estate, the main assets that were acquired include the companies' licences, patents, technical documentation, exclusive permits and clearances to supply oils and special liquids. The goal of the acquisition was for the Gazprom Neft Group to enter new promising segments for premium products based on Group 5 base oils.

Gazpromneft-Bitumen Materials LLC acquired a 75% stake in the charter capital of NOVA-Brit LLC, a company that specialises in the production of bitumen-derived encapsulating materials under the BRIT® brand, which are used for the construction, repair and maintenance of roads, airfields and artificial structures and also in civil engineering. The company's products meet international quality standards.

The Gazprom Neft Group's participation in NOVA-Brit LLC diversifies its sales channels, provides the group with access to a new high-margin market for innovative bitumen products for airfield, road and civil construction as well as the opportunity to join forces with a leader in the manufacturing of bitumen-derived products in order to develop and promote modern high-tech materials for oil and gas industry pipelines.

On 19 August 2016, Gazpromneft-Aero JSC closed a transaction to acquire a 100% stake in the charter capital of CHUKOTKAEROSBYT LLC from the Chukotsnab State Unitary Enterprise of the Chukotka Autonomous District. CHUKOTKAEROSBYT LLC handles aviation fuel supplies at three airports of the Chukotka Autonomous District: Anadyr, Pevek and Keperveyem. The transaction was concluded as part of Gazprom Neft Group's project to acquire the aviation fuel business at airports of the Chukotka Autonomous District.

In April 2016, the activities of Gazpromneft-Aero Ulyanovsk LLC were terminated via a merger with Gazpromneft-Aero JSC in an effort to optimise the latter's corporate structure. The moveable property of Gazpromneft-Aero Ulyanovsk LLC was transferred to the Ulyanovsk branch of Gazpromneft-Aero JSC to continue activities involving aircraft fueling in the Ulyanovsk Region.

A stake was sold in the non-core asset Murmansk Airport OJSC (24.12% of shares), which had been owned by Gazpromneft-Aero JSC.

In an effort to improve the efficient management of production assets in the Orenburg Region, the reorganisation of Gazprom Neft Orenburg CJSC was completed in 2016 through the acquisition of Centre for Science-Intensive Technologies CJSC (which owns licenses for the right to use the subsoil resources of the Tsarichansky area, Filatovskoye field and Tsarichanskoye field) and Zhivoy Istok CJSC (which owns licenses for the right to use the subsoil resources of the Baleykinskoye field and Uransky area) with the simultaneous transformation of Gazprom Neft Orenburg CJSC into a limited liability company.

As part of optimising the ownership structure of the Gazprom Neft Group's subsidiaries, the following companies were put under the direct ownership of Gazprom Neft PJSC:

- > Gazpromneft-Supply LLC (ownership interest of Gazprom Neft PJSC – 80.89%; other participants – Gazpromneft-Omsk Oil Refinery JSC and GPN-Invest LLC);
- > Meretoyakhaneftgaz LLC (ownership interest of Gazprom Neft PJSC – 100%).

In order to reduce administrative expenses on supporting the activities of the Gazprom Neft Group's companies, two joint-stock companies that are part of the Gazprom Neft Group were reorganised into limited liability companies in 2016: Gazpromneft-NNGGF OJSC and Gazpromneft-RZBM CJSC.

REORGANISATION OF SALES ENTERPRISES

Given the change in the regional sales model, the Gazprom Neft Group is actively restructuring its sales enterprises to create a retail business centre on the core of one of the Gazprom Neft Group's enterprises in an effort to improve the cost effectiveness of petroleum product sales, increase the scale of the petroleum product business, enhance the quality of management decisions, accelerate the introduction of innovation solutions and new technologies

and the automation of business processes, reduce administrative expenses and introduce the concept of the centralised management of a network of regional petroleum storage depots by a specialised company of the Gazprom Neft Group.

As this model was introduced, the Gazprom Neft Group's sales assets underwent the following restructuring over the course of 2016:

- > Gazpromneft-Kuzbass JSC and Gazpromneft-Chelyabinsk LLC were merged with Gazpromneft-Centre LLC;
- > Gazpromneft-Corporate Sales LLC was reorganised through the spin-off of Gazpromneft-Corporate Sales LLC (AZS) and the latter was simultaneously merged with Gazpromneft-Centre LLC;
- > Gazpromneft-Northwest JSC was reorganised through the spin-off of Gazpromneft-Northwest LLC and the latter was simultaneously merged with Gazpromneft-Centre LLC;
- > Gazpromneft-Omsk OJSC was reorganised through the spin-off of Gazpromneft-Omsk (NB) LLC.

The following sales assets were also restructured for the same purposes:

- > reorganisation of Gazpromneft-Omsk OJSC through a merger with Gazpromneft-Centre LLC;
- > reorganisation of Gazpromneft-Ural JSC through the spin-off of Gazpromneft-Ural (AZS) LLC and Gazpromneft-Ural (NB) LLC;
- > reorganisation of Gazpromneft-ZS LLC through the spin-off of Gazpromneft-ZS (Retail) LLC.

STRIVING FOR BETTER CORPORATE GOVERNANCE

In improving its corporate governance practices, the Company closely monitors the development of corporate legislation and corporate governance practices in Russia and abroad.

In 2014 the Bank of Russia adopted and recommended employing the Code of Corporate Governance and in 2015 it published a new version of the G20/OECD Corporate Governance Principles, which specified the development vectors for corporate governance in Russia and around the world. These documents set a high benchmark for the development of the Company's corporate governance system, which has become a subject of close scrutiny for the Company.

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As a result, the Company focused throughout 2016 on studying the novelties of corporate legislation, principles, recommendations, best practices and procedures related to corporate governance and analysing the feasibility of applying them in its own corporate governance practices.

INITIATIVES TO DEVELOP CORPORATE GOVERNANCE PRACTICES

Observing shareholder rights

- > improving the transparency of disclosed information
- > implementing a range of measures to improve engagement with shareholders
- > developing the capabilities of the shareholder user account

Improving the efficiency of governing bodies

- > improving certain procedures for organising the work of governing bodies
- > drafting new versions of key internal Company documents to harmonise them with the requirements of legislation, regulatory and best corporate governance practices

Improving the quality of corporate governance and adhering to best practices

- > improving the management system of subsidiaries and affiliates
- > updating internal documents and procedures regulating corporate governance regulations within the group
- > conducting an external assessment of corporate governance practices once every three years

Information disclosure

- > drafting of a new version of the Regulation on Information Policy
- > improving the quality of information disclosure in the annual report and on the Company's website
- > introducing the practice of the Board of Directors (or one of its committees) considering matters related to the Company's compliance with its information policy