

## ACTIVITIES OF THE BOARD OF DIRECTORS

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### MEETINGS OF THE BOARD OF DIRECTORS IN 2017

The Board of Directors handles the day-to-day management of the Company's activities. As part of its purview, the Board of Directors determines the strategy, policies, and main principles of the Company's operations, including its investments and borrowings, risk management, and the management of property and other activities, and also monitors their implementation.

The Board of Directors includes 13 people: 10 non-executive directors who represent the interests of the controlling shareholder – Gazprom PJSC, two independent directors, and the Company's CEO. Gazprom Neft is guided by the independence criteria that are enshrined in the Code of Corporate Governance of the Central Bank of the Russian Federation. Gazprom Neft ensures the members of the Board of Directors are elected via a transparent procedure. The Board of Directors is balanced insofar as its members possess the key

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### ITEMS CONSIDERED AT MEETINGS

skills that are essential for effective work. The members of the Board of Directors have skills in accounting, strategic management, corporate governance, corporate finance, and risk management as well as industry-based experience and knowledge.<sup>1</sup> When performing their functions, Board members actively interact with the Company's management, structural units, the registrar, and the auditor.

The existing structure of the Board of Directors provides an appropriate level of independence from the Company's management, which helps to ensure the proper monitoring of its work.

The **Management Board** and the **CEO** – the Company's executive bodies – are accountable to the Board of Directors and the General Shareholders Meeting. The CEO of Gazprom Neft is Alexander Dyukov.

### IN 2017, THE BOARD OF DIRECTORS CONSIDERED THE FOLLOWING MATTERS CONCERNING SUSTAINABLE DEVELOPMENT:

- the implementation of the Gazprom Neft PJSC Development Strategy until 2025
- the Gazprom Neft PJSC Offshore Development Programme
- the Gazprom Neft PJSC Innovative Development Programme until 2025
- the risk management system at Gazprom Neft PJSC and the results of an assessment and updating of key risks based on the results of 2016 and the first half of 2017
- plans for the development of catalyst production and meeting the needs of the Gazprom Group
- 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 the results of the first half of 2017 and the long-term plans for 2018-2020
- the approval of the Policy on Annual Bonuses for Gazprom Neft Group employees

### BALANCE OF THE BOARD OF DIRECTORS BY AGE

Source: Company data



### ASSESSMENT OF THE WORK OF THE BOARD OF DIRECTORS

#### The Board of Directors conducts an annual assessment of its performance.

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 Board of Directors. In addition, one of the issues that was deemed to need further improvement based on the assessment results was 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.

<sup>1</sup> — A list of the members of the Board of Directors, their specific skills as well as the number of meetings at which each member was present is presented in the Company's Annual Report for 2017 on the Company's website.

## MECHANISMS TO ELIMINATE A POTENTIAL CONFLICT OF INTERESTS

The Company strives to maintain a balance of interests between shareholders and management. The Company's main shareholder has a sufficient number of votes to pass decisions on a significant number of issues that fall within the purview of the General Meeting of Shareholders and also to form the Board of Directors. Despite this, the Company seeks to utilize tools that feature a high concentration of equity to mitigate risks related to the specific nature of management.

Internal documents – the Corporate Code and the Code of Corporate Governance – serve as the foundation for resolving conflicts of interest. Gazprom Neft has created a Corporate Culture and Ethics Working Committee, which monitors compliance with the provisions of the Company's Code. The Committee includes members of the Management Board.

In accordance with the Code of Corporate Governance, members of the Board of Directors must:

- refrain from taking actions that could lead to a conflict of interest
- refrain from voting on issues in which they have a personal interest in their decision-making
- not disclose or use confidential and/or insider information about the Company in their own personal interests or the interests of third parties

There were no conflicts of interests among members of the Gazprom Neft Board of Directors and Management Board in 2017.

**Internal documents – the Corporate Code and the Code of Corporate Governance – serve as the foundation for resolving conflicts of interest.**

Detailed information about the Company's compliance with the principles of the Code of Corporate Governance as well as procedures and mechanisms that eliminate the possibility of conflicts of interest in the supreme governing bodies is provided in Appendix, or on the website



## REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS AND 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.

The remuneration system for members of the Company's Management Board includes the base portion of remuneration, which is determined on an individual basis and fixed in the employment contract, an annual bonus and a long-term incentive programme.

The amount of the annual bonus for key senior executives is dependent

on the degree to which they fulfilled a fixed set of KPIs and business initiatives. This list of KPIs includes performance indicators with respect to the Company's strategic goals, corporate, financial, and performance targets as well as indicators demonstrating compliance with industrial safety standards.

In addition to the annual bonus, Gazprom Neft employs a long-term incentive programme based on the dynamics of the Company's market capitalization over a three-year period. Members of the Management Board are not paid any additional remuneration for work in the management bodies of Gazprom Neft or its subsidiaries. Management Board members received total income of RUB 1.285 billion in 2017. Payments include work remuneration for the reporting period, taxes

and other mandatory payments to relevant budgets and extra-budgetary funds, bonuses, the payment of annual work leave during the reporting period, and payment for medical treatment and services.

The amount of remuneration for members of the Board of Directors depends on the Company's financial results and is annually approved by shareholders, which eliminates the risk of potential abuses of the remuneration programme.

A total of RUB 303.37 million in remuneration was paid to members of the Board of Directors in 2017 (remuneration includes personal income tax). Members of the Board of Directors did not receive compensation for expenses related to their participation on the Board of Directors in 2017.