

40%

of the consolidated net profit was distributed as dividends in 2019

CORPORATE GOVERNANCE

Corporate governance – best practice equals higher income

Chairman's letter



Dear shareholders and investors,

Effective corporate governance is vital to the stable and sustainable development of any company. And the Board of Directors is a key element in that system. Strategic business management, ensuring

the protection of shareholders' rights and interests, and maintaining an open dialogue with the investment community, together with full transparency of information – the Gazprom Neft Board of Directors was successful in addressing all of these in 2019.

The Gazprom Neft Board of Directors saw considerable changes for this reporting year, with five new representatives – each having the appropriate qualifications and experience – being elected. Board meetings examined more than 100 issues of strategic importance to the company, with the resulting decisions having a major impact on the effective development of Gazprom Neft's business. The Board of Directors was responsible for overseeing the fulfilment of the company's investment programme, management of the company's debt portfolio, plans for international business development and the development of the aviation and bitumens sectors, the outcomes of the first year of the company's new development strategy, and other issues.

The Board of Directors' assessment of Gazprom Neft's activities in 2019, and the company's business-development plans, confirm their full compliance with the objectives outlined

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in Gazprom Neft's long-term business strategy to 2030.

The Board of Directors approved various pieces of internal regulation developed in 2019, including the company's external audit policy, regulations on insider information, and regulations governing the procurement of goods, works and services – all of which are directed at further improving the company's management and business processes, and all of which outline Gazprom Neft's approach to upholding independence and avoiding conflicts of interest.

This reporting year saw the Board of Directors adopt Gazprom Neft's Digital Transformation Strategy: this document having been developed in line with the company's Development Strategy to 2030, and being designed to ensure full support for (and implementation of) that strategy. Changes being made within Gazprom Neft as a result of new technologies (mainly based around "Big Data" and "digital twins" of company assets) are improving flexibility and effectiveness in business management.

Key priorities for Gazprom Neft include safety, care for the environment, and the meticulous management of natural resources – as well as working to improve living

standards in every location in which the company operates. It is of no small importance that Gazprom Neft's Sustainability Report was subjected to its first ever independent audit in 2019 – with experts verifying the document as being fully compliant with the Global Reporting Initiative's best practice and international standards in sustainable development.

Senior management at Gazprom Neft has been proactive in engaging with shareholders and the investment community throughout 2019, discussing the company's free cash flow (FCF) utilisation, sustainable development policy, and increasing dividend payments to shareholders during meetings with representatives from global investment funds.

Gazprom Neft made dividend payments to shareholders on two occasions in 2019, increasing the amounts paid on both occasions, with dividends for 2018 representing 38% of consolidated net profit, and dividends for the first half of 2019 being 40% of consolidated net profit for that period.

This reporting year has made clear the considerable efficiency of the company's governing bodies, and their positive impact on the outcomes of Gazprom Neft's activities.

The Board of Directors will continue its strategic management of the company in improving the sustainability and increasing the scale and scope of Gazprom Neft's business throughout 2020.

Alexey Miller,

Chairman of the Board of Directors
Gazprom Neft PJSC