

Remuneration payable to governance bodies

Remuneration of the Board of Directors

Remuneration payable to the Board of Directors is linked to the financial performance of the company, and is approved annually by shareholders. The discretionary control by shareholders is necessary to prevent potential abuse of the remuneration process.

In accordance with the resolution of the General Meeting of Shareholders, the remuneration accrued and paid to the members of the Board of Directors, who do not hold any

positions in the company executive bodies (do not serve as executive directors), in 2019 amounted to 0.005% of EBITDA, based on the Gazprom Neft consolidated financial statements (IFRS) for 2018.

Apart from the base remuneration, the members of the Board of Directors received the additional compensation for serving as the Chairman of the Board of Directors (50% of the remuneration paid to members of the Board of Directors), a member of the Board of Directors committee (10% of the remuneration paid to the members of the Board

of Directors), and the Chairman of the Board of Directors committee (50% of the remuneration paid to committee members).

The total amount of remuneration paid to the members of the Board of Directors in 2019 was ₹531.7 million (the amount includes personal income tax). Members of the Board of Directors were not reimbursed for their expenses related to membership in the Board of Directors in 2019.

Remuneration paid to the members of the Gazprom Neft PJSC Board of Directors for participation in the governance body in 2019

Full name	Position	Amount, ₹
Alexey Miller	Chairman of the Board of Directors	59,962,950
Vladimir Alisov	Member of the Board of Directors	39,975,300
Andrey Dmitriev	Member of the Board of Directors	39,975,300
Valery Golubev	Member of the Board of Directors, member of the Audit Committee	43,972,830
Igor Fedorov	Member of the Board of Directors, chairman of the Human Resources and Compensation Committee	45,971,595
Andrey Kruglov	Member of the Board of Directors, member of the Human Resources and Compensation Committee	43,972,830
Elena Mikhailova	Member of the Board of Directors, member of the Audit Committee	43,972,830
Kirill Seleznev	Member of the Board of Directors	39,975,300
Mikhail Sereda	Member of the Board of Directors, chairman of the Audit Committee	45,971,595
Valery Serdyukov	Member of the Board of Directors	39,975,300
Sergey Fursenko	Member of the Board of Directors, member of the Human Resources and Compensation Committee	43,972,830
Vsevolod Cherepanov	Member of the Board of Directors, member of the Human Resources and Compensation Committee	43,972,830
Alexander Dyukov	Executive member of the Board of Directors	Compensation is not paid
TOTAL		531,671,490

Remuneration of the Management Board

The Company has put in place a well-structured and fair remuneration scheme for the Management Board and senior management that links bonuses to short-term targets. On top of bonuses for achieving the said targets, the Company introduced incentives hinging on its market capitalisation in the three-year horizon.

Remuneration payable to the Management Board includes:

- base remuneration;
- an annual bonus;
- the Long-Term Incentive Programme (LTIP)

The amount of the base remuneration is specified individually, and formalised in employment contracts.

The annual bonus is designed to motivate key managers to achieve annual targets and is calculated following the review and approval of their performance against a set of KPIs and business initiatives. The KPIs cover metrics to assess delivery on the Company's strategic goals, along with corporate, financial, project performance and HSE compliance metrics.

To boost the efficiency of financial incentives offered to employees to meet annual targets and, by extension, the Company's strategic goals, the Board of Directors approved Annual Bonus Policy, an underlying document that links KPIs with annual bonuses payable to the Company's and its subsidiaries' Employees.

The main goals of the annual bonus system:

- providing motivation for achieving the annual targets, and, consequently, the company's strategic goals; implementing the principle of performance-based payment, and improvement of employee efficiency;
- formalising general rules, and determining uniform corporate standards in the field of annual bonuses paid to the Gazprom Neft Group employees.

Annual Bonus Policy principles:

- focusing on achievement of key strategic / priority goals;
- taking into account employee impact on performance;
- ensuring transparency and clarity.

The main parameters of the annual bonus system:

- a list of the annual bonus system participants (for the Policy purposes, they include all full-time employees of the company, excluding the Gazprom Neft PJSC CEO, employees of project offices working under fixed-term employment contracts, and workers at production facilities);
- target percentage of the annual bonus (specified depending on an employee position);
- factors having an impact on the annual bonus amount: achieving KPIs, and executing business initiatives.

These principles are being implemented through correlation between the bonus amount and the achievement of annual goals, that may be set at various levels, depending on the position:

the group, a division, an organisation, a subdivision, and individual performance and efficiency of employees, measured on the basis of annual contribution assessment.

The company believes that the success (efficiency) of its current business, and implementation of long-term strategic-development measures, which form the basis for high-quality development of the company in the medium and long term, are equally important. Therefore, when goals for the reporting period are set, both financial and operating indicators, and business initiatives are taken into account:

- the financial and operating indicators (FOI) are indicators covering the most important aspects of current operations;
- business initiatives (BI) are objectives aimed at improving the company business, including future activity.

Strategic target indicators (planned and actual) are approved by the Board of Directors of Gazprom Neft PJSC.

Strategic target performance indicators for 2019

Metric	2019 (plan)	2019 (adjusted plan)	2019 (actual)
Normalised consolidated earnings before interest, tax, depreciation and amortisation (EBITDA), ₺ billion	757.3	777.7	795.1
Economic value added (EVA), ₺ billion	66.4	120.4	137.7
Return on average capital employed (ROACE) ¹ , %	14.6	16.8	17.4
Net Debt-to-EBITDA ratio	0.85	0.74	0.70
Total proved reserves, including a share in subsidiaries ² , mt of oil equivalent	3,656	3,644	3,709
Reserve-replacement ratio (RRR), %	100	83	102
Hydrocarbon production, mt of oil equivalent	96.5	96.3	96.1
Refining volume, mt	41.8	41.3	41.5
Premium sales of petroleum products, mt	26.4	26.3	26.5
Conversion rate, %	82.8	82.8	82.7
Labour productivity, ₺ million per person	36.67	38.09	39.79
Equity-to-debt ratio, %	32.2	33.3	32.3
Oil production ³ , mt	64.9	63.7	63.3
Sales of crude oil and petroleum products, mt	74.4	72.3	72.1
Net profit ⁴ , ₺ billion	333.8	380.5	400.2
Net working capital, ₺ billion	45.3	20.9	71.5
Inventory turnover, days	28.3	28.4	29.0
Ratio of accounts-receivable growth rate to revenue growth rate (without the group turnover)	0.98	1.00	1.59
Operating expenses, ₺ billion	2,092.3	2,052.0	2,038.7
Limit on capital-investment financing sources, ₺ billion	507.8	486.2	486.2

/ 1 / Under the IFRS. Based on adjusted EBIT and income tax rate including share in JVs.

/ 2 / In the budget of 2017 and onwards, hydrocarbon reserves in accordance with the Russian classification are categorised into AB1 + C1 based on the new classification [Order of the Russian Ministry of Natural Resources and Environment No. 477 of 2013].

/ 3 / Including production of condensate and natural gas liquids.

/ 4 / Profit attributable to shareholders in Gazprom Neft PJSC.

Total compensation for 2019, with a breakdown by payment type, ₺ thousand

Metric	Board of Directors	Management Board	Total
Compensation for serving on governance bodies	531,671	–	531,671
Salary	–	726,837	726,837
Bonuses	–	674,028	674,028
Other	–	37,562	37,562
TOTAL	531,671	1,438,427	1,970,098

The Long-Term Incentive Programme based on share price growth, is an integral part of the long-term Growth Strategy of the Gazprom Neft Group, and provides for paying compensation to management for increasing the group value for shareholders for a particular period.

The Programme seeks to:

- boost the Company's long-term performance;
- harmonise the interests of the Company's shareholders and senior management;
- balance short-term results and long-term sustainability;
- attract and retain senior managers in line with best domestic and international practices.

The Programme rewards are conditional on positive changes to the Company's market cap in each of the programme's three-year periods. Eligible for participation

are the Company's senior managers provided they meet certain criteria.

The remuneration is based on fair value at the end of each reporting period and is payable at the end of a three-year spell. The compensation depends on certain market conditions and duties, which are taken into account, when the amount to be paid to particular employees is determined. Expenses are recognised throughout the entire period of implementing the plan. In 2019, provisions amounting to ₺1,526.8 million were accrued under the Long-Term Incentive Programme (LTIP) for 2018-2020.

Remuneration accrued to the Management Board in 2019 amounted to ₺1,438.4 million. The payments included salaries for the reporting period, applicable taxes, and other statutory payments to budgets and non-budget funds, bonuses, paid annual leave

for the reporting period, and medical treatment and assistance.

In 2019, the Management Board received no additional remuneration for membership in the Company's or its subsidiaries' governance bodies.

The company did not give loans to members of the Board of Directors and the Management Board.