



Association of  
Institutional Investors (API)

# Research report on PJSC GAZPROM

as of 09/30/2016



RESEARCH LABORATORY FOR BUSINESS COMMU-  
NICATIONS, NATIONAL RESEARCH UNIVERSITY  
HIGHER SCHOOL OF ECONOMICS

## Brief capital structure overview

Proceeding from the equity capital structure, the Russian Federation (the Federal Agency for State Property Management / Rosimushchestvo and the JSCs controlled by Russia) effectively owns 50.23% of the Company's shares. Quasi-treasury shares (including the stake of Gazprom Gerosgaz Holdings B.V., a company jointly controlled by Gazprom and E.On, and controlled companies) reach about 3%. Proceeding from the AGM quorum and the results of voting by shareholders, quasi-treasury shares are presumably voted at shareholders meetings.

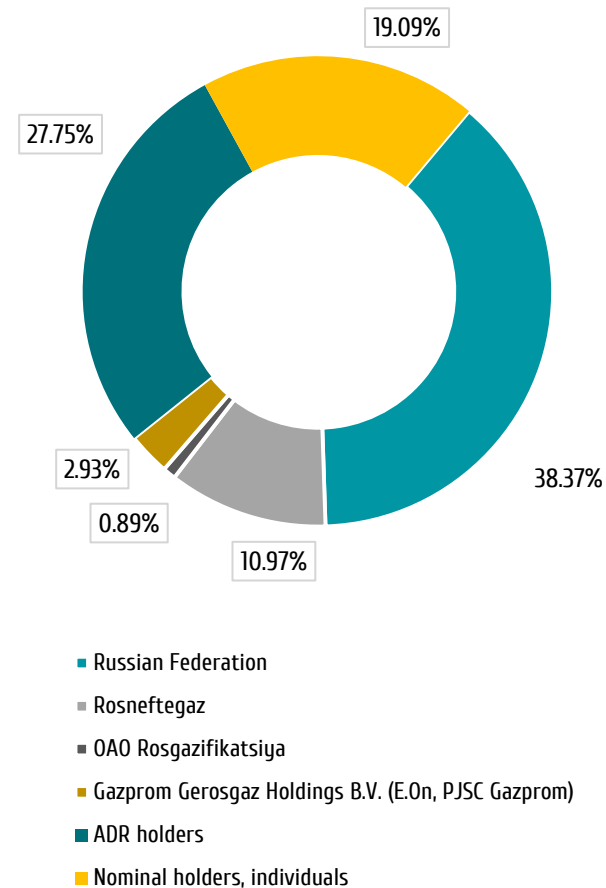
About 28% of the Company's share capital is represented by depositary receipts (ADRs) mainly owned by institutional investors, while the heavily dispersed local shares in free float account for ca. 19.09% of the total capital. ADR holders are not entitled to propose issues to the AGM agenda, including candidates for election to the Board of Directors (BoD), which considerably narrows shareholders' opportunities to contribute to the development of corporate governance (CG) at the company. For example, independent directors (INEDs) were only nominated to the BoD by the majority shareholder (the Russian Federation) in 2016 (while 2 of the 3 candidates are affiliated with the Government).

*Taking into account the quorum history, the election of one INED by minority shareholders' votes requires consolidation of 5.4-5.9% of shareholders' votes and the candidate's nomination by shareholders jointly holding at least 2% of the local shares.*

## Corporate governance self-assessment

*The results of self-assessment (the full list of the principles and recommendations the Company complies with is not disclosed in the annual report) shows that PJSC Gazprom complied with 72 out of 79 principles and recommendations of the CG Code in 2015, excluding 7 items disclosed as being partially complied or not complied with.*

Breakdown of voting shares



# Summary of CG practice

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- the Company's Articles of Association vest the BoD with the power to determine at its discretion the procedure for engagement with entities in which the Company has equity interests, including the scope of its authority in relation to such entities (a relatively rare practice);
- the Company discloses an external evaluation in 2015 of its internal audit activities for compliance with the internal audit definition, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing, preparation of measures in follow-up of the evaluation;
- the description of related party transactions in the annual report includes a detailed rationale for recognizing related-party interest;
- reports on BoD resolutions disclose information on material terms of related party transactions and on the BoD members' voting results (except for individual voting);
- the Company has a hotline for countering illegal actions and corruption, as well as a Commission for Corporate Ethics.

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- According to our estimates, quasi-treasury shares are voted at shareholders meetings, while the Company's voting policy is not disclosed and the BoD is not involved in shaping the policy of voting quasi-treasury shares;
- 2 out of 3 INEDs do not meet the CG Code independence criteria (both are formally affiliated with the Government as the major shareholder, one of them, in our opinion, is affiliated with a significant counterparty) and recognized as INEDs by a special decision of the BoD;
- no disclosure of the top management remuneration system (the long-term/short-term components, the variable/fixed parts, etc.) and the correlation between actual payments and the achievement of KPIs;
- the regulation on the procedure for determining the amount of BoD members' remuneration is not disclosed. The Company follows the practice of short-term incentives for the achievement of KPIs;

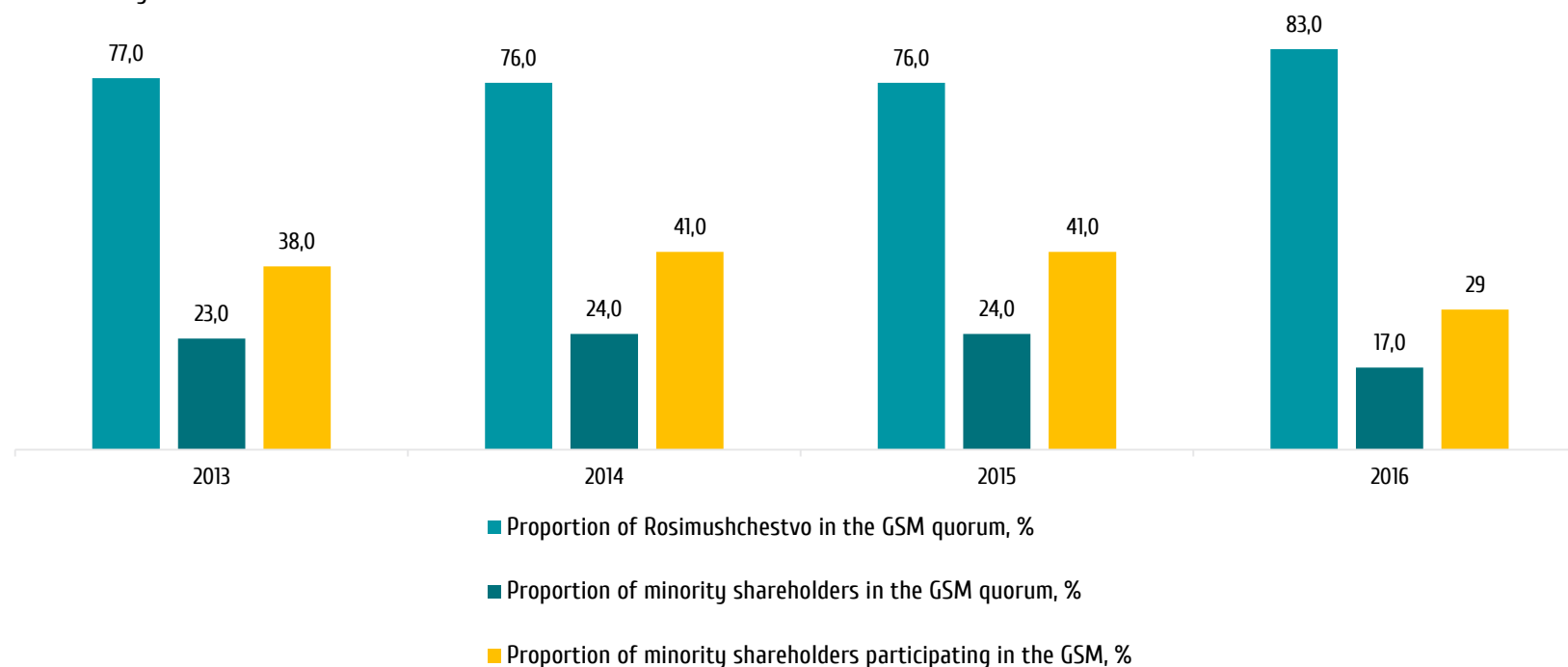
- no disclosure of BoD members' individual voting and their participation in meetings, including the breakdown by the meeting format (personal attendance, including expressions in writing, or meetings in absentia);
- the period for submitting AGM agenda items and nominating candidates to the management and supervision bodies is only 30 days;
- the BoD has no powers to appoint and dismiss the head of the internal audit division / IAD (although in practice, the BoD approves the decision to appoint the IAD head) and to consider the IAD budget and activity plan;
- the Company's dividend policy has not been updated since its adoption in 2010; the dividends are linked to the Company's RAS (Russian GAAP) profit, adjusted for the financing of investments out of profits in the amount of 40% to 75% of the Company's RAS profit;
- the Company does not follow the CG Code recommendations to pass resolutions on key issues of the Company's activities by a qualified majority or a majority vote of the elected BoD members (only 1 out of 10 issues stipulated by the CG Code are taken account of in the Articles of Association) and to consider such issues at physical meetings (1 out of 19 issues);
- the Company's shareholders have no right to call for a BoD meeting;
- materials prepared for general shareholders meetings (GSMs) do not disclose details on candidates to the BoD and the Audit Commission, except for positions, as well as on persons proposing candidates and agenda items;
- the Company does not comply with the legal requirement to make public offers to shareholders of controlled companies, despite related court rulings and instructions from the Bank of Russia;
- the Company has a Coordinating committee for relations with shareholders and investors chaired by the Deputy Chairman of the Management Committee, but no specifics on the work of this Committee are disclosed; the minority shareholders surveyed by the API are not aware of this Committee's activities.



## General shareholders meeting: activity of shareholders, related party transactions

The percentage of private minority shareholders participating in GSMs decreased considerably in the last three years to 13% of the total free float and 10% of the quorum in 2016). The low participation of minority shareholders in shareholders meetings produces a quite adverse impact on the Issuer's corporate governance. According to the Russian legislation, shareholders possessing 2% of the Company's shares in aggregate are entitled to propose amendments implementing the CG Code recommendations and best CG practices to the Articles of Association and by-laws, including the nomination of independent directors meeting all independence criteria and well known to investors.

94 related party transactions for a total amount of RUB 3,334 billion, \$12,664 million and €604 million which may be effected in the normal course of business in the future were approved at the 2015 AGM, 96 transactions for a total amount of RUB 5,779 billion, \$12,633 million and €438 million at the 2016 AGM (the wording of issues concerning the approval of 22 transactions contains the clause "for each transaction" without specifying the total number of transactions). Seeing as the majority shareholder is not recognized as a party in interest, minority shareholders do not influence the policy of effecting such transactions.



## Information on the shareholders of PJSC Gazprom, according to Bloomberg data and information disclosure by the shareholders

Shareholder Name	Voting stake, %	Comment on voting
Russian Federation	38.37	No voting policy, Rosimushchestvo votes as instructed by the Government of Russia.
Rosneftegaz	10.97	The shareholder votes according to decisions based on instructions from the Government of Russia, no voting policy.
GAZPROM GEROSGAZ HOLDINGS BV	2.93	The company is controlled by Gazprom, according to the Issuer's website. The voting of quasi-treasury shares cannot be properly detected due to imperfect disclosure of GSM-related materials. According to our estimates, quasi-treasury shares are voted at GSMs.
ОАО Rosgazifikatsiya	0.89	The company is controlled by the Russian Federation. No voting policy.
BNY MELLON (INEDs, mainly ADRs)	27.83	The shareholder owns depositary receipts (the total limit of the program reaches 35% of the share capital). The custodian bank discloses the 15 biggest ADR holders. A separate review of voting by these investors was not conducted, but many of them are direct shareholders of the Russian companies covered by this research and their voting policies are disclosed accordingly. According to the Russian legislation, holders of depositary receipts are entitled to dividends, allowed to vote at GSMs, but devoid of all the other rights related to corporate actions. Judging by the 2016 AGM quorum, participation of ADR holders in the meeting was extremely low.
VANGUARD GROUP INC	0.91	The shareholder discloses the GSM voting policy (Vanguard's proxy voting guidelines), as well as the way it voted in the last corporate season (including filings submitted to the U.S. Securities and Exchange Commission). For funds focused on investments in Russia, no participation data in relation to the Company's 2016 AGM is available for disclosure. The shareholder does not nominate BoD/Supervisory Board (SB) candidates, but supports, according to the general approaches to voting, the idea of nominating at least 20% of INEDs by a group of shareholders holding at least 3% of the company's shares in the preceding 3 years. The shareholder receives recommendations from proxy advisory firms.
BLACKROCK Group	0.64	The shareholder discloses both global corporate governance principles and regional approaches to voting and engagement with companies (Proxy voting guidelines for European, Middle Eastern and African securities). Information on voting in the last corporate season is disclosed. The shareholder disclosed non-voting at the 2016 AGM. The shareholder receives recommendations from proxy advisory firms. The shareholder does not nominate BoD/SB candidates but can support other shareholders' proposals if there is certainty about meeting shareholders' interests in the best way possible.
NORGES BANK	0.46	According to the disclosure, no data on voting at the 2016 AGM are available, The shareholder discloses the voting policy (Norges Bank Investment Management's voting guidelines) and the way it actually voted in the last 4 years. The bank has so far not nominated BoD/SB candidates in Russia, unlike other countries. The shareholder receives recommendations from proxy advisory firms.



# General shareholders meeting: disclosure of information

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- draft versions of new by-laws submitted for approval by the GSM highlight amendments proposed to them. However, no rationale for such amendments is provided. Our recommendation is to make comparison tables reflecting proposed changes, including the reason(s) for each of the proposed amendments.

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- profiles of candidates to the BoD and the Audit Commission do not contain sufficient information for understanding of their personal and professional qualities and do not disclose details on their concurrent service in other positions;
- GSM-related materials do not disclose persons proposing agenda items and candidates to the BoD and the Audit Commission;
- GSM-related materials do not include a rationale for the proposed profit distribution, including the payment of dividends and other spending; besides, no calculation according to the Company's dividend policy is provided;
- GSM-related materials do not contain a rationale for proposed amendments to the Articles of Association and their existing version (for comparison);
- GSM-related materials include detailed, though not quite essential information on the proposed auditor, including the list of Russian clients, but do not disclose its fee and the auditor selection procedure (the tender number in the public procurement system, the bidders), as well as information on anticipated non-audit services and their price;
- the coverage of related party transactions submitted for approval by a GSM which PJSC Gazprom may effect in the normal course of business in the future is limited to brief rationales and comments. The non-disclosure of their economic feasibility (whether calculated or otherwise clarified) and the key risks arising from effecting or not effecting them (at least for the largest and most significant transactions for which such clarification is advisable) hampers informed decision-making by the shareholders.



## Board of Directors: international and domestic practice

BoD activity aspect	Total S.A.	BP plc	ExxonMobil	PJSC Gazprom
Number of INEDs / total BoD size	7/12 (the number of INEDs does not include representatives of employees and shareholders related to them)	13/15	11/13	3 (2 of them recognized as INEDs by a special BoD decision)/11
Participation in meetings of BoD and committees in 2015 (number of meetings / attendance ratio, %)	BoD: 9 meetings (4 BoD members have attendance ratio of 80%, 1 BoD member 89%). Audit Committee: 7 meetings (2 members missed 1 meeting each), Compensation Committee: 3 meetings (attendance ratio 100%)	BoD: 13 meetings (2 via teleconference), 1 BoD member missed 2 meetings, 3 BoD members missed 1 meeting each. Audit Committee: 11 meetings (3 members missed 1 meeting each)	BoD held 11 meetings, Audit Committee 11 meetings, Compensation Committee 7 meetings, Board Affairs Committee 7 meetings. Average attendance ratio: 92%, attendance ratio at BoD and all committees is at least 75% (no individual disclosure).	A total of 66 BoD meetings, including 11 physical meetings; no attendance data are provided in the annual report and in GSM-related materials
Remuneration of BoD members / actual payments for 2015	€20K to BoD member, 30K to Audit Committee Chair, 25K to Audit Committee member + 5K per BoD meeting, 7K per Audit Committee meeting, 3.5K per meeting of other committees. Actual: € 61-130K	£785K to BoD Chair, £120K to Senior INED, £90K to BoD member, £30/20K to Committee Chair/member. Actual: £141-178K for the corporate year	\$110K to BoD member, \$10K to Committee Chair + 2,500 shares annually (+ 8,000 shares upon taking office) and dividends on them (not distributed if resigned before age of 72). Actual: \$110-120K+ \$231K in shares	Regulation on remuneration of BoD members is not disclosed. Actual (2016 GSM): RUB 26 million to BoD Chairman, RUB 25.2 million to Deputy BoD Chairman, RUB 22.2 million to AC Chair, RUB 21.4 million to AC member; RUB 20.9 million to other BoD members (not holding a public office and not being civil servants)

*The Company does not disclose information on the attendance of BoD meetings.*

*The total actual remuneration of BoD members is commensurate with peers or somewhat higher.*



## Board of Directors: practical activity aspects

### Chairman of the Board of Directors

**Viktor Zubkov** (*representing the Russian Federation*)

Russia's Special Presidential Representative for Cooperation with the Gas Exporting Countries Forum, no shareholding in the Company

**Vladimir Mau** (*INED\**)

Rector, Russian Presidential Academy of National Economy and Public Administration (RANEPA)

Member of the Audit Committee, member of the Nomination and Remuneration Committee; no shareholding in the Company;

### Chairman of the Audit Committee

**Viktor Martynov** (*INED\**)

Rector, Gubkin Russian State University of Oil and Gas, no shareholding in the Company;

**Timur Kulibaev** (*INED*)

Chairman, KAZENERGY Kazakhstan Association of Oil, Gas and Energy Sector Organizations, no shareholding in the Company.

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*The API failed to arrange for a meeting with independent BoD members as the Company did not respond to a request. We therefore cannot include comments on key corporate governance issues in this report and present a review of the BoD activity in practice. Besides, the Company does not disclose information on individual voting by BoD members, which also prevents a proper analysis of certain aspects of the BoD activity.*

\*BoD members Viktor Martynov and Vladimir Mau elected at the 2016 AGM were recognized as independent directors by a BoD resolution as of 08/23/2016, despite their formal affiliation with the Government: both are rectors of state-financed educational institutions appointed by order of the Ministry of Education and Science, i.e. a federal executive authority (Viktor Martynov) or the Government of Russia (Vladimir Mau).

*It should be noted that the Board of Directors did not take into consideration the possible affiliation of Viktor Martynov, the rector of the Gubkin Russian State University of Oil and Gas, with this higher education institution as the Company's major counterparty when acknowledging his independence. Financing from the Company, including donations, makes a large portion of the Gubkin University's revenues. In the period under review (2015 and 9 months of 2016), Gazprom's governing bodies approved 43 transactions involving the Gubkin University as a party, for a total amount of more than RUB 2,773 million (21 transactions for a total amount of RUB 336.5 million were approved by the BoD, 22 transactions worth RUB 2,437 million by the general shareholders meetings in 2015-2016). The aggregate ceiling amount of the transactions approved for execution in 2015-2017 exceeds 30% of the University's aggregate budget revenues in 2015 and 2016. For reference: for the same period, the Company's governing bodies approved a mere 4 transactions for a total amount of RUB 979 thousand with RANEPA whose rector (Vladimir Mau) is also a member of the Board of Directors. No donation contracts were approved.*





## Board of Directors: practical activity aspects

For the period under review (2015 and 9 months of 2016), according to the disclosure system, the BoD held 110 meetings (one of the highest results among the companies covered by the research). The BoD considered 336 issues, including 118 related party transactions (35% of all the issues) for a total amount of more than RUB 368 billion, \$3.2 billion and €119 million. The Company does not always disclose the meeting format (physical/in absentia) in material facts. In 2015, the BoD held 11 physical meetings; two of the meetings held in January-September 2016 were clearly identified as physical meetings.

### *Key issues considered by the BoD:*

- charity (11 issues considered); only one of them, "Optimization and efficiency increase of charity and sponsorship expenses", qualified as a systemic issue, all the other issues concerned specific transactions, basically the financing of educational institutions;
- approval, adjustment and reporting on the achievement of KPIs and the Company's effective regulations on the KPI system (8 issues);
- long-term development program (LTDP), amendments and implementation reports, as well as LTDP audit-related issues (6 issues);
- approval of actual KPIs and the management remuneration calculation procedure (5 issues);
- risk management (approval of the policy and regulation), road map, assessment and updating of key risks (5 issues);
- review of performance results, including the annual report and financial statements (4);
- consideration of the budget and investment program, including related adjustments (3);
- organization of the internal audit function at the Company (3).

Based on the information from disclosure system, the Board of Directors considered the issue "On adjusting the target (planned), threshold and maximum values of the Company's 2015 key performance indicators for the purpose of the annual senior management bonus system of PJSC Gazprom" on December 25, 2015. Consideration of such adjustments virtually at the expiration of the reporting period calls for an explanation and is not advisable in goal-setting.

As for risk management, the Board of Directors separately considered the issue "On assessing and updating the key risks", although as late as in August 2015. In June 2016, the BoD considered a plan of measures addressing risk management and internal control processes aimed at preventing and countering corruption. According to the information disclosure, regular risk management reports are not considered at BoD meetings as a separate issue.

The Company's Articles of Association do not provide for the shareholders' right to request the convening of a BoD meeting. According to CG Code recommendations, this right should be given to shareholders who own at least 2% of the Company's voting shares.

As regards regulation of the Board of Directors activities, the procedure for considering BoD members' expressions in writing is too focused on formalities. In particular, expressions in writing containing amendments and reservations on proposed draft resolutions, as well as statements of opinion on issues for which the draft resolutions were amended at the BoD meeting are disregarded. At the same time, the establishment of a procedure for negotiating amendments with BoD members who are not in attendance ensures that BoD members' positions are taken into account to the fullest extent possible, especially where views on draft resolutions differ, and should therefore be regarded as the best practice.



## Audit Committee (AC)

2 of the 3 AC members (including the Chairman) are recognized by the BoD as independent BoD members. 1 AC member is a representative of the management (a negative practice existing only at PJSC Gazprom among the companies covered by the research). The AC members are only specified in a press release – no disclosure on the website.

In 2015, the BoD held 7 meetings, including 5 meetings in the form of joint attendance, and considered a total of 13 issues.

The practical activity of the committee and the power of the BoD in this respect are not consistent with the CG Code recommendations, given the lack of power to appoint and dismiss the IAD head, the lack of power to exercise control over the system for reporting potential unfair actions of employees and third parties and to approve the IAD budget.

In 2015, the AC approved the internal audit system development concept, the Internal Audit Regulation, the annual and long-range plans of internal audits, the risk management policy and the Regulation on the Risk Management System of Gazprom Group. According to the disclosure system, the AC considered information on the internal audit division's activity.

The AC and the IAD have no direct top-level control over the prevention and settlement of conflicts of interests or violations – this power is vested in the Commission for Corporate Ethics of PJSC Gazprom, a collective executive body established by order of the Chairman of the Management Committee based on the Company's Code of Corporate Ethics.

## Nomination and Remuneration Committee (NRC)

The NRC consisting of three BoD members has the same composition as the Audit Committee, the only difference being that the management representative chairs the committee (a negative practice existing only at PJSC Gazprom among the companies covered by the research).

The committee was established by a resolution of the BoD as late as in October 2016 (most likely with the aim of meeting the listing rules of the exchange).

*Evaluating the NRC members' access to all contracts with the senior managers and the remuneration system is problematic due to the lack of opportunity to meet with the committee members.*



## Essential CG aspects

### Relations with the external auditor

According to clause 2.1.6 of the Regulation on the Audit Committee, the committee is authorized to approve tender documents, to review the results of evaluation and comparison of tender bids by the bidding commission and to prepare recommendations on the auditor for the BoD, which is good practice. However, the AC does not formulate the key requirements to the procurement of audit services.

FBK LLC was approved as the auditor by a resolution passed at the GMS on June 30, 2016. The cost of audit services in relation to the accounting (financial) statements of PJSC Gazprom, the consolidated accounting statements and consolidated financial statements of Gazprom Group according to IFRS standards for the year 2016 amounted to RUB 228 million (64% of the initial tender price).

The price of services is the key evaluation component taken into account for auditor selection purposes (60%), the other factors being the qualitative parameters of the procurement item (the standard terms of audit services, 30%) and the auditor qualification (10%). Seeing as Russian auditors generally bid lower prices (in this case, 12% below the price offered by the second best bidder) while offering comparable terms and conditions of services (let alone the advantage of being licensed to deal with state secret), the Big Four companies' superiority in terms of qualification cannot offset the lag in the other criteria. This is showcased by the 2016 auditor selection when the aggregate score of the second best bidder (JSC PwC Audit, a Russian subsidiary of PwC possessing extensive experience in auditing PJSC Gazprom and its subsidiaries) was 0.81 points (on a 100-point scale) or 0.9% below the score of the winner, Russia's audit firm FBK LLC (which also has a track record of cooperation with Gazprom), while the second best bidder surpassed the winner in professional qualification by 8.54 points. Therefore, the lower price and the license to deal with state secret actually decided in favor of the Russian firm.

We recommend that AC members pay attention to the investors' opinion on the engagement by the Company of a Russian specialist to

audit IFRS financial statements. Investors feel more comfortable with an international auditor for whom the quality of audit services is primarily a matter of reputation.

The Company discloses information on the provision (scope) / non-provision by the current auditor of non-audit services. In 2015, the cost of audit services was RUB 204 million (net of VAT), the cost of non-audit services reached RUB 24.7 million (VAT included).

### Internal audit, internal control, risk management

The Company has approved the Internal Audit Regulation, the Regulation on the Risk Management System of Gazprom Group and the Risk Management Policy of PJSC Gazprom. The Internal Audit Regulation is not disclosed, although most of the PJSCs covered by this research do disclose internal audit policies. Besides, the disclosure system does not indicate whether the BoD considered the internal audit department's report in 2015 (as follows from the annual report, information on the internal audit department's activities was presented to the AC, without further specifics).

The Company has a rather mature internal control and risk management system. The internal audit, internal control and risk management functions are differentiated.

The essential flaws of the internal audit function are as follows:

- the head of the internal audit department is appointed and dismissed by the Chairman of the Management Committee as advised by the Deputy Chairman and approved by the AC, while the CG Code assumes that it is the BoD that has decisive influence on decisions to appoint the IAD head and to determine the IAD head's remuneration, as well as on the approval of the IAD activity plan (after preliminary consideration by the AC), according to a practice already pursued at most of the PJSCs covered by this research.

In 2015, the Company and the entities controlled by it concluded over 17,000 contracts for a total amount of more than RUB 1 trillion, but saved a mere RUB 33 billion, i.e. no more than 3.3% on average, which means that attention should be paid to further improvement of pro-



curement management and control efficiency on the part of the BoD and the IAD.

The Company has a hotline for countering illegal activities and corruption (the hotline is under control of the corporate protection service and the Commission for Corporate Ethics). The internal audit department's participation in checking up on appeals is duly regulated, but the AC is not supposed to exercise control and to receive copies of related opinions, although the responsibility to control the observance of corporate ethics is assigned exactly to the Committee.

The Commission for Corporate Ethics was established by a BoD resolution as an additional supervisory body for tracking conflicts of interests and monitoring compliance with by-laws on corporate ethics (the composition and operation procedure of the Commission were approved by an order, not by a BoD resolution, it is not a BoD body).

### Negative practice of non-performing mandatory corporate actions

The Company does not meet the obligations to make a mandatory public offer for the buy-back (repurchase) of securities to minority shareholders 72 regional gas distribution companies which Gazprom acquired from OJSC Rosneftegaz in 2013 with the permission of the Russian Government given in 2010. According to certain estimates, the cost of all stakes in regional gas distribution companies to be repurchased if all the shareholders accepted the offer would reach almost RUB 8 billion. Courts repeatedly dismissed the Company's actions to challenge the minority shareholders' claims. The Bank of Russia sent related orders to the Company and imposed non-compliance penalties, but the Company still fails to make the offers.

In the middle of 2016, a draft law proposing the transfer of shares between state-owned companies without making an offer if pursuant to decrees issued by the President or the Government of the Russian Federation was submitted to the State Duma. The draft law gives full legal recognition to the Company's currently illegal refusal to make offers to regional gas distribution companies' shareholders, as it proposes, among other things, extending the exemption from mandatory offers to previously effected transactions and therefore, makes PJSC

Gazprom one of the main beneficiaries of its adoption. We believe that there is, and should be, no difference between decrees of the Government / President acting as the majority shareholder of state-owned companies and decisions of a private controlling shareholder. The enactment of this draft law will compromise the basic guarantees of investors and ultimately discredit both the Company and the Russian Federation as a country with an attractive economy for portfolio and institutional investors.

### Dividend policy

The Company's dividend policy has not been updated since its adoption in 2010, the amount of dividends is linked to the RAS (Russian GAAP) profits and further limited to ensure the financing of investments out of profits in the amount of 40% to 75% of the Company's RAS profit; The 2015 dividends amounted to 23.7% of the IFRS profit attributable to the shareholders of PJSC Gazprom (25% of the total IFRS profit), 46.29% of the RAS (Russian GAAP) net profit.

It should be noted that the dividend payout ratio was below the target level set by the Government of Russia for 2015 (50% of the IFRS or RAS net profit, whichever is the greater).

Just like most of the PJSCs covered by the research, the Company does not pay interim (quarterly or 6-month) dividends, a practice typical with foreign peers.

The dividend policy needs to be updated, particularly given the need to abandon the practice of paying dividends out of leftovers, to use a benchmark in relation to profit distribution and to set target values for the return on capital investment, the cost and volume of borrowings, etc.



## Dividend payments at Gazprom vs. (conditional) peers, in relation to IFRS net profit (2015), %

<i>IFRS/US GAAP</i>	<i>Total S.A.</i>	<i>BP plc</i>	<i>Exxon Mobil</i>	<i>PJSC Gazprom</i>
Payout ratio (the ratio of dividends to net income)	124%	No profit earned in 2015 (176% in relation to 2014 net profit)	75%	24%

## Corporate social responsibility

The total amount spent by Gazprom Group on charity and social projects in 2015 was not disclosed in the annual report, which is not consistent with the generally accepted international practice for major companies. However, according to the 2015 Russian GAAP statement, the Company's expenses for charity amounted to RUB 17,634 million or 2.19% of the consolidated IFRS profit earned in 2015, slightly higher than at peers.

Spending on charity and social development of regions compared with peers, in relation to net profit, %

<i>Total S.A.</i>	<i>BP plc</i>	<i>Exxon Mobil</i>	<i>PJSC Gazprom</i>
0.36%	1.77% (in relation to the previous year's net profit)	1.66%	4.37% of RAS profit (2.24% of IFRS profit)

## Information disclosure

- The Company does not disclose the individual voting of BoD members in the mandatory disclosure system;
- most of the reports on related party transactions approved by the BoD disclose essential parameters of such transactions, which we regard as good practice;
- the Company provides reasons for non-disclosure of information (including reference to confidentiality), which is commendable;
- the Company does not disclose the senior management remuneration system and the correlation between payments and specific KPIs (including the disclosure of target and actual KPIs, particularly versus peers);
- the Company does not disclose the results of activity of the Coordinating committee for relations with shareholders and investors;
- no disclosure of members of the BoD committees on the website.



## Disclosure of the management motivation system at international peers

<i>Approximate proportions of CEO remuneration components in 2015</i>	<i>Total S.A.</i>	<i>BP plc</i>	<i>Exxon Mobil</i>	<i>PJSC Gazprom</i>
Fixed annual remuneration	25%	14%	13%	55%
Annual bonuses	38%	11%	10%	45%
Long-term remuneration	36%	75%	77%	0%

### Employee stock option plan (ESOP) highlights

The Company has adopted a Regulation on the system of annual bonuses for senior employees of PJSC Gazprom, a Regulation on key performance indicators and a Regulation on the equity participation program for senior employees. The system of annual bonuses (applying, among others, to senior employees of controlled companies) is based on unified remuneration principles and approaches assuming that the remuneration is linked to the achievement of KPIs. The total bonus fund is determined on the basis of company-wide KPIs divided into two groups: no more than 7 financial and economic KPIs with a total relative weight of up to 70% and no more than 4 industry-specific KPIs factoring in special features of the business activity, with a total relative weight of no more than 50% of the combined weight of all KPIs). The target (planned) and actual KPI values are subject to annual approval by the BoD. In 2015, 65 executive employees qualified for the equity participation program (the share acquisition program). Under the terms of the program, such employees can acquire shares at their own expense or using borrowed funds provided by Bank GPB (JSC) under the program. The acquisition of shares using borrowed funds is not a generally accepted international practice.

### Disclosure of information on shareholdings of the Company's Management Committee (5 largest shareholdings)

<i>Management Committee member</i>	<i>Rounded-off value of share package as of 09/30/2016</i>
Alexey Miller	RUB 31 million
Andrey Kruglov	RUB 23 million
Vitaly Markelov	RUB 198 million
Oleg Aksyutin	RUB 70 million
Nikolai Dubik	RUB 31 million



	<i>Total S.A.</i>	<i>BP plc</i>	<i>Exxon Mobil</i>	<i>PJSC Gazprom</i>
Disclosure: all payments, incl. in the form of stock, estimate of future payments	CEO Actual: €1,200K in salary €1,814.4K in bonus payments €1,723K in bonuses for KPIs	CEO+CFO Actual (CEO): \$1,854K in salary, \$1,391K in bonus payment, \$2,603K in deferred bonus payment in shares (2/3 of annual bonus payment) + shares; \$7,116K in long-term remuneration in the form of shares for KPI achievement	CEO+CFO+3 top managers; actual (CEO): \$3,047K in salary, \$2,386K in bonus payment, \$18,288K in the long-term remuneration in the form of shares	Collective executive body (in aggregate) Actual: RUB 1,429 million in salaries, RUB 1,155 million in bonuses
KPIs influencing the short-term (annual) variable remuneration component (incl. fixed relative weights of the KPIs, if any)	Security, ROE, net income/equity capital, adjusted net income, operating cost reduction, personal KPIs	Reduction in the number of primary environmental pollution cases, accident rate, number of industrial accidents (10% each); operating cash flow, replacement cost profit (20% each); net investment 15%, corporate and functional expenses 10%, priority projects 5%	Safety and operating efficiency, ROCE, TSR vs. peers, FCF, payments to shareholders, strategic results, implementation of projects. Additionally, 50% of the bonus is deferred until target EPS achievement	Specific costs in the "Production" business segment (15%) and "Transportation" business segment (15%), ROE 20%, return on shareholder investment 10%, labor efficiency 5%, operating expenditure (cost) reduction 5%, gas sales in physical terms 15%, commissioning of priority industrial projects 15%
KPIs influencing the long-term variable remuneration	ROE, ROACE, adjusted net income	TSR vs. peers 1/3, operating cash flow 1/3, stock replenishment rate, safety and industrial risks, implementation of priority projects 1/3 in total	See annual remuneration component	N/a
Long-term bonuses	Shares for KPIs, options	Portion of annual remuneration (3-year period) converted into shares and long-term remuneration in shares for KPI achievement (3-year accumulation period)	Payment of long-dated shares: 50% in 5 years, 50% in 10 years or in case of resignation	N/a

