



Association of
Institutional Investors (API)

Research report on ROSNEFT OIL COMPANY

as of 09/30/2016



RESEARCH LABORATORY FOR BUSINESS
COMMUNICATIONS, NATIONAL RESEARCH
UNIVERSITY HIGHER SCHOOL OF ECONOMICS

Brief capital structure overview

Russia's direct stake in the Company is only 1 share (0.000000009%). The Government actually maintains control over Rosneft through the sole ownership of Rosneft's controlling shareholder Rosneftegaz. The Company has no quasi-treasury shares. The largest minority shareholder elects 2 representatives to the Board of Directors (BoD), while the Government elects 2 independent directors (INEDs) and 5 representatives of the Russian Federation* through Rosneftegaz.

In December 2016, a 19.5% stake in Rosneft was reportedly sold to a consortium of investors including Glencore and Qatar Investment Authority. In 2017, the shareholders will have to negotiate approaches to the BoD formation so as to ensure availability of at least three INEDs on the BoD (there were only 2 INEDs meeting the CG Code independence criteria on the Board of Directors + 1 BoD member recognized as independent* at the time this report was being prepared).

This is possible under two scenarios, one of which assumes that the number of directors increases to 11:

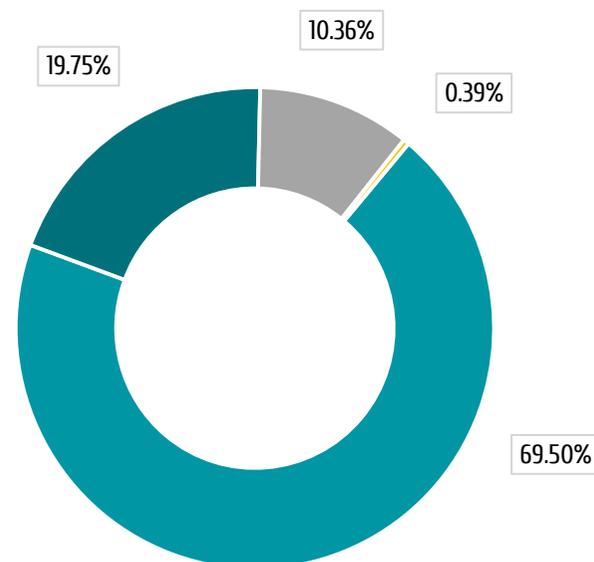
1) with a BoD consisting of 11 members, the Russian Federation technically loses control over the BoD resolutions in case the largest minority shareholders elect two representatives each, ultimately resulting in the following structure: 4 representatives of Russia, 4 representatives of minorities, 3 INEDs proposed by Russia;

2) with a BoD retaining its current size of 9 members, minority shareholders have to "sacrifice" 1 seat on the BoD each for INEDs; in this case, the Russian Federation technically loses control as well, but a resolution needs only support from one INED to be passed.

The free float is 10.36%, with 7.4% of the shares represented by Global Depository Receipts. Theoretically, the remaining minority shareholders' influence on the BoD formation is insignificant, although proposals for INED candidates are technically possible, for example.

**On December 23, 2016, the BoD recognized one its members representing the Russian Federation as an independent director based, among others, on the Government's order assuming exemption of 1 BoD member from the obligation to vote as instructed.*

Breakdown of voting shares



- ROSNEFTEGAZ
- BP Russian Investments Limited
- National Settlement Depository (free-float)
- Other



General summary of CG practice

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- the Company discloses many corporate by-laws, including internal audit and risk management documents, as well as the standard applying to the remuneration of top managers (CEO, Vice Presidents and executives in the rank of Vice President), which is a case of best practice;
- the attitude to minority shareholders of controlled entities is generally fair, although there were cases of intra-corporate loans before the buy-back of shares during the TNK-BP takeover deal (according to the acquired company's shareholders), which does not meet the good practice standards;
- the Company has approved the plan of actions for implementing the Corporate Governance (CG) Code recommendations in the Company's activities by 2018;
- the Audit Committee considers activity reports of the Internal Audit Service, appoints and dismisses the head of the Internal Audit Service;
- the notices of decisions taken by the Company's BoD disclose essential terms of related party transactions;
- the Company discloses the persons proposing GSM agenda items and candidates to the control and management bodies;
- (conditionally positive) information on the hotline handling, among others, security issues, is provided on the first page, but no information is available on the working principles, the role of the Internal Audit Service and the Audit Committee;
- after the research was completed, the Company announced changes to the dividend policy assuming that the payout ratio reaches at least 35% in terms of IFRS net profit and that dividends will be paid twice a year in the foreseeable future. The changes to the current dividend policy have not been disclosed so far.

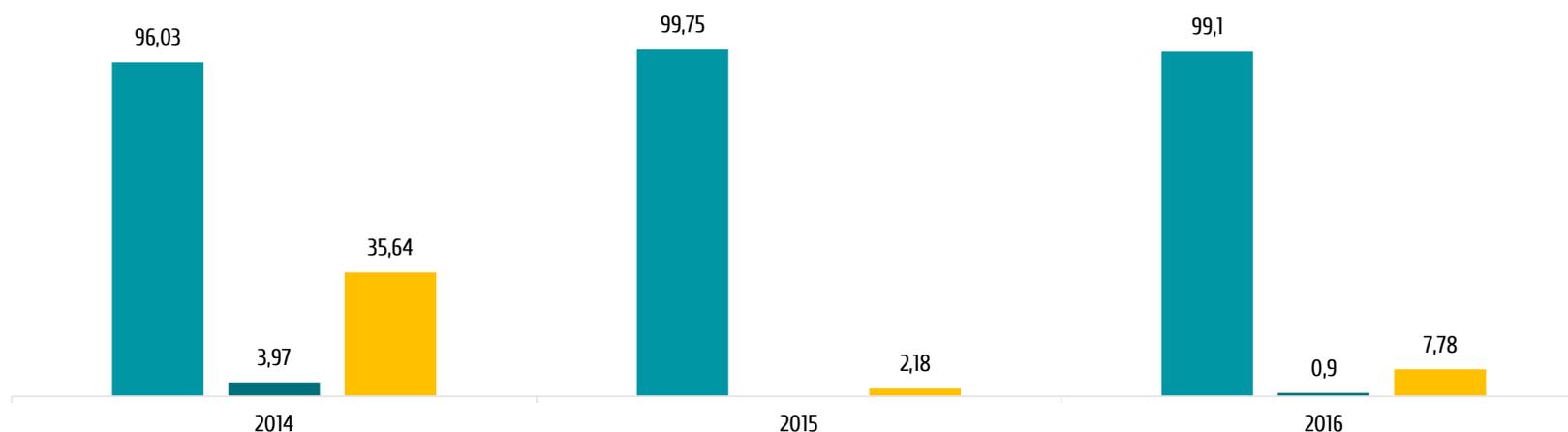
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- we were not able to assess the key activities of the BoD and its Committees in practice, as we had no opportunities to meet with INEDs and to rely on the disclosure of material facts;
- only 2 of the 9 BoD members are fully independent (INEDs) meeting the applicable independence criteria of the CG Code;
- the notices of BoD decisions in the mandatory disclosure system do not identify the voting BoD members and do not indicate individual voting results;
- the CG Code recommendations regarding the need to ensure a qualified majority or the majority vote of the elected BoD members for significant issues are not followed completely (2 of 10);
- the BoD has no powers to form management bodies at substantial controlled entities;
- no disclosure of the top management remuneration system and the correlation between the payments and the achievement of specific KPIs (including information on the target and actual KPIs);
- (conditionally negative) the Company does not completely follow the CG Code recommendation to consider the most significant issues at physical BoD meetings (for 2 of 19 issues), but the Company's CG Code provides for a list of issues which BoD intends to address at physical meetings (the practice of consideration cannot be assessed, given the quality of information disclosure and the lack of BoD members' opinions);
- there are risks of influence on the Internal Audit Service's independence and objectivity;
- the shareholders have no power to convene a BoD meeting;
- the disclosure system contains no information on the involvement of the BoD and/or the relevant Committee in preparing proposals concerning BoD candidates for the next corporate year for the principal shareholder, including Rosimushchestvo.



General shareholders meeting: activity of shareholders

The activity of minority shareholders is extremely low due to the sanctions which hamper voting at general shareholder meetings and reduce the free float level. In practice, the consolidation of portfolio and institutional investors has no effect on decision-making, even without the sanction-related problems. For instance, consolidation of about 10% of the votes is required to elect an independent director (100% of the free float).



- Proportion of Rosneftgaz+BP in quorum of GSM participants
- Proportion of free float in quorum of GSM participants
- Percentage of minority shareholders taking part in GSM, in relation to total free float



Information on the shareholders of ROSNEFT OIL COMPANY, according to Bloomberg data and information disclosure by the shareholders

Shareholder Name	Voting stake	Comment on voting
ROSNEFTEGAZ (wholly owned by the Russian Federation)	69.5	No voting policy, voting according to the Government of Russia's instructions
BP PLC	19.75	Strategic investor, no voting policy
VANGUARD GROUP	0.18	The shareholder discloses its approaches to voting at shareholder meetings, as well as the way it voted in the last corporate season. For funds focused on investments in Russia, information on Rosneft is not provided in reports (obsolete ownership data or no information disclosure at all as the sanctions remain in effect). The shareholder does not nominate BoD/SB (Supervisory Board) candidates, but supports, according to the generally disclosed 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.
FIDELITY MANAGEMENT & RESEARCH	0.13	The shareholder discloses the details of its voting policy on key issues (election of the Board of Directors, approval of the remuneration system, anti-takeover position, etc.). The shareholder also discloses its voting in the corporate season (from July 2015 to June 30, 2016). No information on voting at Rosneft's AGM is available in the disclosure system.
SECHIN IGOR IVANOVICH	0.13	As of September 30, 2016, the Company's Chief Executive Officer owned shares for a total amount of RUB 4,624 million. Investors welcome the CEO's significant shareholding in the Company. The number of securities used to calculate the money equivalent is disclosed on the Company's website, along with information on all BoD members and members of the Management Board.
BLACKROCK	0.13	The shareholder discloses both global corporate governance principles and regional approaches to voting and engagement with companies. Information on voting in the last corporate season is disclosed. The shareholder disclosed non-voting at the EGM in 2015 and the AGM in 2016. 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.
SWEDBANK ROBUR FONDER AB	0.04	The shareholder is a signatory of PRI. The Board of Directors approves a responsible investment policy for several following years, including approaches to avoiding investments in some sectors and companies. In Russia, the shareholder votes at GSmS on a selective basis, the voting results are not disclosed. The shareholder may participate in the nomination of independent directors or propose an agenda item for a general shareholders meeting. Besides, the shareholder regularly discloses the list of companies where it communicated with the management teams in the reporting period (2016). Among the Russian companies, the list refers to Transneft in relation to environmental, human rights, reporting and transparency issues.



General shareholders meeting: disclosure of information

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- The GSM-related materials are disclosed in the English and Russian languages 30 days prior to a GSM, according to the standards of corporate by-laws;
- the GSM materials specify the persons proposing agenda items and candidates to the BoD and the Audit Commission;
- the materials contain information on the proposed auditor, the auditor selection procedure, as well as the price of audit services in relation to the Company's accounting (financial) statements according to Russian GAAP (RAS) standards and the consolidated statements according to IFRS standards. The materials related to AGMs (including the AGMs held in 2014-2016) contain a list of all services which the auditor provided to the Company, including their cost, which we regard as a good practice.

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- the Company's annual report does not include details of related party transactions approved by the BoD and the GSM in the reporting year;
- the materials do not contain a rationale for the distribution of profit, including the portion earmarked for dividends and the earnings retained by the Company;
- the materials include draft amendments to corporate by-laws, if any, but without a rationale for the proposed changes. Besides, there are no current versions of the to-be-amended documents attached to the draft amendments for comparison to give the shareholders clear understanding of the content and value of such changes. The best practice would be to provide comparison tables reflecting the proposed changes, as is the case at other PJSCs, with a rationale for each change;
- for the recent AGM, the Company only reviewed compliance with 49 of the 79 principles and recommendations set forth in the CG Code (full compliance with 27 recommendations, partial compliance with 17, failure to comply with 5). In addition, the Company believes that 6% of these recommendations are not applicable to it, without exact reference to such recommendations.



Board of Directors: international and domestic practice

BoD activity aspect	Royal Dutch Shell	BP	Exxon Mobil	Rosneft Oil Company
INEDs/total number of BoD members	9/11	13/15	11/13	2/9
Participation in meetings of BoD and committees in 2015	BoD: 12 (3 BoD members missed 1 meeting each, 1 BoD member 3 meetings); Audit Committee: 6 meetings (1 non-attendance), Nomination Committee: 7 meetings (100% attendance), Remuneration Committee: 5 meetings (1 BoD member missed 2 meetings)	BoD: 13 meetings (2 via tele-conference), 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%, the BoD and all Committees have attendance ratio of at least 75% (no individual disclosure).	BoD: 30 meetings, 100% attendance (adjusted for cases of non-attendance due to a conflict of interest or a related-party interest), Audit Committee: 18 meetings (100% attendance), HR and Remuneration Committee: 15 meetings (100% attendance).
Remuneration of BoD members / actual payments based on 2015 performance	(2016) €850K to BoD Chair, €130K to BoD member, €55K to Senior INED, €55 (25)K to Audit Committee Chair/member, €35 (17,25)K to Remuneration Committee Chair/member, €25 (12)K to Nomination Committee Chair. Actual (2015): €147-315K (616K BoD Chair)	£785K to BoD Chair, £120K to Senior INED, £90K to BoD member, £30/20K to Committee Chair/member. Actual: £141-178K for 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 applicable if resigned before age of 72). Actual: \$110-120K+ \$231K in shares	\$500K to BoD member, \$600K to BoD Chair, \$30K to Committee member, \$50K to Committee Chair.



Board of Directors: practical activity aspects

Chairman of the Board of Directors

Andrey Belousov (representing the Russian Federation),
Assistant to the President of the Russian Federation,
no shareholding in the Company;

Chairman of the HR and Remuneration Committee

Matthias Warnig (INED since December 23, 2016)*,
Executive Director, Nord Stream 2 AG (Switzerland) representing the
Russian Federation until 12/23/2016,
equity position: 0.0009% of the ordinary shares (worth RUB 28.2 mil-
lion);

Chairman of the Audit Committee

Donald Humphreys (INED),
equity position: 0.0021% of the ordinary shares
(worth RUB 76.3 million);

Chairman of the Strategic Planning Committee

Oleg Viyugin (INED)
Professor, NRU Higher School of Economics,
no shareholding in the Company.

The API failed to arrange for a meeting with independent BoD members as the Company did not respond to the request. Therefore, we are not able to provide the BoD members' comments on key CG issues and a case study of the BoD's activity in the report. The results of BoD members' voting (including individual voting for each BoD member) also remain undisclosed, which prevents a proper analysis of certain BoD activity aspects.

* After the reporting date, the Company's Board of Directors recognized Matthias Warnig (representing the Russian Federation) as an independent member, despite his affiliation with significant counterparties (membership in the BoDs of VTB and Transneft) and the Government (through Nord Stream 2 AG in which state-controlled PJSC Gazprom owns a 51% stake), given the Government's order to exclude the BoD member from the list of persons obliged to vote as instructed. We did not invite this BoD member to a meeting as he did not qualify as an INED at the time the research was conducted.

It should be noted that the Board of Directors did not take into account Matthias Warnig's possible affiliation with the Company's possible competitor PJSC Gazprom (arising, among other things, through his service as CEO of Nord Stream 2 AG controlled by Gazprom) when recognizing his independence. We believe that Rosneft's own gas business and the inclusion of Gazprom Neft PJSC (also controlled by PJSC Gazprom) in the competitive environment review section of the annual report serve as a ground for recognizing PJSC Gazprom as the Company's competitor and for consideration of this issue by the Rosneft Board of Directors.



Board of Directors: practical activity aspects

In the period under review (2015 and 9 months of 2016), the BoD held 46 meetings. Seeing as not all notices of BoD resolutions specify the form of the meeting, determining the exact ratio between physical meetings and meetings in absentia is problematic. The Company does not disclose the meeting participants and the voting results either. In 2015, according to the 2015 annual report, the BoD held 30 meetings, including 5 physical meetings. We could only identify 6 physical meetings in the period under review (based on the disclosure system), with 165 issues considered.

Key issues addressed by the BoD:

- approval of related party transactions (39 issues, almost 24% of the total number; 2,244 transactions for a total amount of RUB 33.6 trillion, \$24.7 billion and €4.1 million were considered);
- determining the Company's position in respect of transactions effected by the Company and Rosneft Group, activities of controlled entities and other issues (22 issues);
- approval of documents (regulations, policies, standards) and amendments to them (21 issues);
- approval of performance indicators (9 issues);
- activity of the Internal Audit Service (7 issues);
- long-term development program (6 issues);
- business plan (plan of financial and economic activities, 4 issues).

It should be noted that, according to the disclosure system, the BoD considered the issue "On adjusting the top managers' 2015 target performance indicators for annual remuneration purposes" on December 31, 2015. Consideration of such adjustments at the close of the reporting period requires proper explanation and is not advisable in goal-setting. It should also be noted that the issue "On approving the top

managers' 2015 target performance indicators" was actually considered after the first quarter of 2015, which is quite late.

In 2015, the BoD approved the "Regulation on the Procedure for KPI Normalization when Analyzing and Assessing Operations of the Company Management for the Reporting Period for Annual Bonus Payment" (the procedure and approaches are not disclosed).

The Board of Directors did not give separate consideration to risk management (in 2015, the Company approved a policy on the risk management and internal control system which obliges the BoD to consider the organization, operation and efficiency of the risk management and internal control system at least once a year).

The Company's Charter does not give shareholders the power to request the convening of a BoD meeting. The CG Code recommends that the shareholders possessing at least 2% of the Company's voting shares should be given this right.

The Company does not disclose the breakdown of BoD members' participation in meetings by the type of the meeting (physical meeting/meeting in absentia). The Boards of Directors of peers hold meetings in the form of joint attendance or via teleconference.



Audit Committee (AC)

Most of the Committee members (2 of 3), including the Chairman, are INEDs.*

**all members of the Committee have been independent since December 23, 2016 subject to the BoD decision to recognize the independence of one Committee member.*

In 2015, the AC held 18 meetings (12 or 6 meetings for some members, given their different terms of office). The attendance ratio is 100%. The Company does not disclose the form of the meetings.

The powers and rights of the Committee generally meet best practices and the CG Code recommendations. In particular, the Audit Committee's scope of authority includes monitoring of the Company's CG system, assessment of the CG practice, maintenance of regular interaction between the BoD and the Company's executive bodies, financial and economic divisions, internal audit and control, and risk management system.

In 2015, the Committee addressed the standard range of AC - relevant issues, including nomination of the auditor, approval of candidates for the position of Head of the Internal Audit Service (IAS), financial statements, approval of corporate by-laws within the competence of the Committee, etc. Additionally, the AC considered the candidates for the positions of heads of IAS divisions, which should be regarded as a good practice. The AC held 18 meetings as well as conference calls with the Head of IAS, external auditor's representatives and members of the Audit Commission.

The AC did not give special consideration to the operation of the "hot-line" for reporting violations, although this issue was probably addressed as part of the internal audit activity report.

HR and Remuneration Committee (HRC)

The HR and Remuneration Committee is chaired by Matthias Warnig recognized by the BoD as an independent director on December 23, 2016. The Committee also includes 1 representative of a substantial minority shareholder and 1 independent director.

In 2015, the HRC held 15 meetings (8 or 7 meetings for some members, given their different terms of office). The attendance ratio is 100%. The Company does not disclose the form of the meetings.

The powers of the Committee generally meet best practices and the CG Code recommendations. In particular, the HRC is authorized to develop and regularly revise the policy of remuneration of BoD members and members of executive bodies (including the terms of the contracts concluded with them) and to monitor its adoption and implementation.

According to the disclosure system, the HRC also contributes to the development of criteria for assessing the performance of the Company's top managers and members of its executive bodies, annually assesses the performance of the BoD and its members. The results of assessment remain undisclosed.

In 2015, the HRC addressed the standard range of issues, including remuneration of the Management Board members based on the KPI achievement, approval of the KPI system for the Management Board members, self-assessment of the BoD and the Company's sustainable development report.

The HRC responsibilities include self-assessment of the BoD performance, an independent consultant is expected to be engaged in 2017.

Assessing the access of HRC members to all contracts with top managers and the remuneration system is problematic, given the lack of opportunity to meet with the Committee members.



Essential CG aspects

External auditor

As a result of a competitive selection procedure, the BoD proposed approving Ernst & Young LLC as the Company's auditor and determining the auditor's fees at the 2016 AGM. The proposed auditor's fees are no more than RUB 3,246,000 for the audit of RAS (Russian GAAP) statements, no more than RUB 95,059,290 for the audit of consolidated IFRS financial statements. Ernst & Young LLC has been cooperating with the Company since 2002. In addition to the statutory audit, the auditor currently provides the following services: reviews of interim consolidated financial statements, additional one-time audit services in relation to new assets acquired by Rosneft Group for consolidated IFRS financial reporting purposes. Ernst & Young also provides audit services to a number of the Company's largest Russian and foreign subsidiaries.

The level of interaction between the auditor and the Audit Committee / BoD members does not seem possible to assess.

Internal auditor, internal control, risk management

The Company has approved the Policy on Internal Audit, the Policy on Risk Management and Internal Control System and the Internal Audit Quality Assurance Program (the documents, except for the latter one, are disclosed on the website). To improve the quality of internal control and risk management, the Company has developed risk and check-up matrices for business processes at the Company and 16 entities of Rosneft Group (a total of more than 100 matrices) reflecting flaws in the design of the check-up procedures. The Company is currently taking remedial actions, training its top managers and employees in the administration of risk management and internal control, as well as fraud and corruption management.

The Company has adopted an anti-corruption policy and arranged a security hotline (email, phone) ensuring confidentiality and (if requested by the informant) anonymity as the hotline is under control of the Company's security service). To what extent the Internal Audit Service and members of the Audit Committee have access to information obtained via the hotline is not disclosed.

The Internal Audit Service (IAS) consists of 3 departments and 2 administrations (the total number of IAS employees is not disclosed). The power vested in the Head of IAS in the rank of Vice President, in our view, is adequate to responsibilities.

However, the membership of the Head of IAS in the Management Board presents risks to independence and impartiality of the internal audit. In terms of international professional internal audit standards, it is not advisable that internal auditors take responsibility for the audited activities and even experience a potential conflict of interest. It should also be noted that the Head of IAS technically holds the office of CEO of Rosneft's main shareholder ROSNEFTEGAZ, while Rosneft CEO is the Chairman of the BoD at ROSNEFTEGAZ whose responsibilities include the signing of a contract with CEO of ROSNEFTEGAZ, unless another person is authorized by a BoD decision. *Besides, the Company's Board of Directors and AC members are not directly authorized to consider the terms of the labor agreement with the Head of IAS and the budget of this division* (according to the Policy on Internal Audit, information on resource limitations, the staff schedule and the resource plan of the IAS can be provided to the Board of Directors when considering the internal audit plan (for the next period).



Dividend policy

The dividend policy which Rosneft approved in 2015 recommends that the Company earmark at least 25% of its IFRS net profit for dividends and declares commitment to increasing dividends every year. The 4-year dividend history shows that the dividend policy recommendations are followed, but the percentage of net profit earmarked for dividends is substantially below the dividend payout ratio of interna-

tional peers. Seeing as the Company has not disclosed the content of changes made to the dividend policy subject to a BoD resolution as of December 7, 2016 (according to the Company's press release, dividends will amount to at least 35% of the IFRS net profit in the foreseeable future and be paid to shareholders twice a year), we confirm our recommendation to amend the dividend policy so as to provide for the profit distribution taking into account the return on retained earnings (RORE), the free cash flow and the target debt load.

	<i>Dividend per share, rubles</i>	<i>Total dividends declared, million rubles</i>	<i>Total dividends paid, million rubles</i>	<i>Dividend payout ratio*, RAS</i>	<i>Dividend payout ratio*, IFRS/US GAAP</i>
2012	8.05	85,315	85,250	28.2 %	25.0 %
2013	12.85	136,187	136,076	99.9 %	25.0 %
2014	8.21	87,011	86,931	17.4 %	25.0 %
2015	11.75	124,529	**	52.0%	35.0 %

* the ratio of dividends declared to net profit for the reporting period; ** n/a

Dividend payout ratio at Rosneft vs. peers

<i>Royal Dutch Shell</i>	<i>BP plc</i>	<i>Exxon Mobil</i>	<i>Rosneft Oil Company</i>
63%	loss (176% of previous year's net profit)	75%	35%

Information disclosure

The Company *does not disclose* individual voting of the BoD members in the mandatory disclosure system, which prevents adequate assessment of the BoD members' position(s) on certain significant agenda items (this especially concerns independent directors). Most of the notices of related party transactions approved by the BoD disclose essential parameters of such transactions, which should be regarded as a good practice. However, the prices of transaction are not disclosed in some cases (without providing reasons for non-disclosure).

The Company does not disclose the top management remuneration system and the correlation between payments and specific KPIs (including the disclosure of target and actual KPIs); the current approaches to disclosure need to be amended as appropriate based, among others, on the disclosure practices at (conditional) peers.



Management remuneration system disclosure practice at international peers

Approximate proportions of remuneration components for CEO in 2015	Royal Dutch Shell	BP	Exxon Mobil	Rosneft Oil Co. (collective executive body)
Fixed annual remuneration	28%	14%	13%	28%
Annual bonuses	34%	11%	10%	72%
Long-term remuneration	38%	75%	77%	0%

	Royal Dutch Shell	BP	Exxon Mobil	Rosneft Oil Company
Disclosure: all payments, incl. in the form of stock, estimate of future payments	CEO+CF0. Actual (CEO): €1,430K in salary, €3,500K in bonus payment (including 50% deferred for 3 years) €163K in long-term remuneration unadjusted for deferred annual bonus payment	CEO+CF0. 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+CF0+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	Management Board remuneration in total (reduced from 13 to 11 members in 2015), including sole executive body (CEO) Actual in 2015 (collective executive body): RUB 2,884 million*. RUB 764 million in salary and service on the Management Board, RUB 2,008 million in bonus payments Standard: RUB 180–240 million in base salary, base bonus for meeting KPI up to 150% of salary, additional bonuses unlimited. Stock option plan possible in the future.

* this does not include the one-time bonuses paid in 2015 for implementing major projects in 2014, the bonuses paid by the President of Russia's decision on national awards for achievements in 2014 and part of the 2014 remuneration, this information is not disclosed separately.



	<i>Royal Dutch Shell</i>	<i>BP</i>	<i>Exxon Mobil</i>	<i>Rosneft Oil Company</i>
KPIs influencing the short-term (annual) variable remuneration component, (incl. the KPI relative weight, if any)	Operating cash flow, project delivery in time and budget, production, sales, capacity utilization, security, energy and water efficiency	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 operational performance (set of metrics), ROCE, TSR vs. peers, FCF, payments to shareholders, strategic results, implementation of projects. Additionally, 50% of the bonus is deferred until target EPS achievement	ROACE, extraction and production of hydrocarbons, EBITDA, net debt / EBITDA, TSR vs. average level across Russian companies, cost reduction under comparable conditions, innovative development program implementation (for CEO); additional KPIs from different blocks apply to other top managers
KPIs influencing the long-term variable remuneration	TSR (30%); EPS growth in relation to cost of supplies (30%); increase in operating cash flow balance (20%); ROACE (20%) for peers divided into 5 groups with 20% increments	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	Base salary x 3.4 (CEO) x KPI achievement ratio (0-2) x TSR underachievement ratio (1/2)	Part of annual remuneration (3-year period) is 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

Management remuneration

The BoD has approved the Standard on payments and compensations to top managers which is disclosed on the official website. The standard defines the basic principles for remuneration of labor, bonuses, compensations and social payments to the President (currently the Chief Executive Officer), Vice Presidents and officers in the rank of Vice President. The annual bonus for the achievement of KPIs cannot exceed 150% of the annual salary (the President's maximum annual salary is RUB 240 million), members of the collective executive body are entitled to an additional bonus equal to 5% of the President's salary, bonuses are paid for implementing particularly important projects (unlimited but subject to decision of the HR and Remuneration Committee if exceeding the annual salary 6 times and more). No long-term remuneration is paid, but a stock option plan is provided for (pending approval).

The best disclosure of the top management remuneration principles among the PJSCs covered by the research; however, actual payments are not disclosed, as opposed to (conditional) peers.

Disclosure of information on shareholdings of the Company's Management Board (the largest shareholdings) as of 09/30/2016

Management Board member	Rounded-off value of share package as of 09/30/2016 (5 largest shareholdings)
Igor Sechin	RUB 4,624 million
Eric Maurice Liron	RUB 185 million
Didier Casimiro	RUB 156 million
Peter Lazarev	RUB 153 million
Zeljko Runje	RUB 131 million
Andrey Shishkin	RUB 131 million

Corporate social responsibility

In 2015, the Company directly spent RUB 6.3 billion (1.78% of its 2015 net profit) on charity and social development of regions (under related agreements).

Spending on charity and social development of regions vs. peers, % of net profit

Royal Dutch Shell	BP plc	Exxon Mobil	Rosneft Oil Co.
0.82%	1.77% (of previous year's net profit)	1.66%	1.78%

The Company's charity expenses as a proportion of its net profit are commensurate with those of peers.

