

Remuneration payable to governance bodies

REMUNERATION OF THE BOARD OF DIRECTORS

Remuneration payable to the Board of Directors is linked to the Company's financial results and is subject to annual approval by the shareholders. The discretionary control by shareholders is necessary to prevent potential abuse of the remuneration process.

As resolved by the General Meeting of Shareholders, the remuneration accrued and paid to the directors not serving on the Company's executive bodies (non-executive directors) in 2018 stood at 0.005% of EBITDA under the Group's consolidated IFRS financial statements for 2017.

In addition to the base remuneration, the directors received additional payments for chairing the Board of Directors and its committees and membership in the Board's committees (50%, 50% and 10% of remuneration payable to directors, respectively).

Total remuneration paid to the Board of Directors in 2018 amounted to ₹ 366.39 m, inclusive of personal income tax. The Company did not reimburse directors for expenses related to discharging their duties.

Remuneration paid to directors for membership in a governance body

Name	Position	Amount (₹)
Alexey Miller	Chairman of the Board of Directors	41,322,525
Vladimir Alisov	Director	27,548,350
Marat Garaev	Director	27,548,350
Valery Golubev	Director, member of the Audit Committee	30,303,185
Nikolai Dubik	Director, member of the Audit Committee, Chairman of the Human Resources and Compensation Committee	34,435,438
Andrey Kruglov	Director, member of the Audit Committee and Human Resources and Compensation Committee	30,303,185
Elena Mikhailova	Director	27,548,350
Kirill Seleznev	Director	27,548,350
Mikhail Sereda	Director, Chairman of the Audit Committee	31,680,603
Valery Serdyukov	Director	27,548,350
Sergey Fursenko	Director, member of the Human Resources and Compensation Committee	30,303,185
Vsevolod Cherepanov	Director, member of the Human Resources and Compensation Committee	30,303,185
Alexander Dyukov	Executive director	No remuneration
TOTAL		366,393,056

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;
- > annual bonus;
- > long-term incentive programme (LTIP).

The **base remuneration** is set in the employment contract of each Management Board member.

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.

By and large, the Company uses annual bonuses to:

- > motivate employees to achieve annual targets and, by extension, the Company's strategic goals, create a performance-based incentivisation system and enhance labour efficiency;
- > formalise general rules and streamline corporate standards pertaining to annual bonuses.

The key principles of the Annual Bonus Policy are:

- > focus on achieving key strategic/priority targets;
- > factoring in an employee's impact on performance;
- > clarity and transparency.

Key annual bonus plan parameters:

- > list of employees eligible for annual bonuses (for the purpose of the Policy they include all full-time employees, other than the CEO, PMO staff employed under fixed-term contracts and blue-collar employees);
- > target percentage of an annual bonus based on a job grade;
- > factors affecting the bonus; KPI achievement and delivery on business initiatives.

To observe the above principles, the Company links bonuses to the achievement of annual targets set depending on a job level (group, business line, company, unit) and each employee's performance and personal contribution subject to annual assessment.

The Company believes that strong performance in the short term is as important as long-term strategic development because it lays foundation for robust business growth in the mid and long run. For that purpose, when setting targets for the reporting period, it takes into account financial and operating indicators as well as outcomes of business initiatives:

- > financial and operating indicators cover the most material aspects of day-to-day operations;
- > business initiatives focus on current and future operational improvements.

Strategic targets (plan and actual) are subject to approval by the Board of Directors.

Strategic operational targets for 2018

Metric	2018 (adjusted plan)	2018 (actual)
Normalised consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) (₽ bn)	737.0	799.5
Economic value added (EVA) (₽ bn)	125.4	178.9
Return on average capital employed (ROACE) ¹ (%)	17.4	19.7
Debt/EBITDA	0.92	0.73
Total proved reserves, including share in affiliates ² (mtoe)	3,640	3,641
Reserve-replacement ratio (RRR) (%)	100	87
Hydrocarbon production (mtoe)	92.7	92.9
Refining volume (mt)	42.1	42.9
Premium sales (mt)	26.3	27.1
Refining depth (%)	82.7	83.9
Labour productivity (₽ m per employee)	37.20	40.18
Crude production ³ (mt)	62.8	63.0
Crude and petroleum product sales (mt)	69.2	70.5

The long-term incentive programme (LTIP)

reliant on market capitalisation growth forms an integral part of the Group's long-term strategy and serves to remunerate the managers in case of an increase in shareholder value for a specific 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.

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

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 condensate and natural gas liquids.

Total remuneration in 2018 by item (P '000)

Metric	Board of Directors	Management Board	Total
Remuneration for membership in a governance body	366,393	–	366,393
Salary	–	679,810	679,810
Bonuses	–	633,437	633,437
Other	–	14,795	14,795
TOTAL	366,393	1,328,042	1,694,435

LTIP 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 reporting year saw P 875,714,000 in provisions accrued on the programme. When calculating the remuneration amount, the Company takes into account certain market factors and duties performed by each manager, and recognises relevant expenses throughout the programme duration.

Remuneration accrued to the Management Board in 2018 totalled P 1,328 m, including salary for the reporting period, applicable taxes and other statutory payments to budgets and non-budget funds, bonuses, paid annual leave for the reporting period, medical treatment and assistance.

In 2018, the Management Board received no additional remuneration for membership in the Company's or its subsidiaries' governance bodies.

The Company extended no loans to the members of the Board of Directors or the Management Board.