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ABOUT THE REPORT

Dear readers,

We are delighted to present Gazprom Neft’s Sustainability Report1 for 2018. This is the Company’s 11th non-financial public report, in which it describes its approaches to complying with the principles of corporate social responsibility, its contribution to sustainable social and economic development, and its environmental initiatives.

The Report discloses information about PJSC Gazprom Neft as well as its subsidiaries and controlled entities (referred to in this Report as Gazprom Neft or the Company) for the calendar year of 20182. The Company’s financial and operating performance is presented based on PJSC Gazprom Neft’s consolidated data. Unless otherwise specified, the data on the Company’s labour relations, social initiatives and environmental performance relates to PJSC Gazprom Neft as well as its subsidiaries and controlled entities in Russia and the CIS.

Information provided herein was obtained from corporate reports, information requests in line with the guidelines contained in the non-financial reporting standards, and corporate media.

The Report discloses the details of management approaches, activities and progress towards achieving economic efficiency, ensuring occupational and environmental safety, supporting and developing personnel, and aiding social and economic development across Gazprom Neft’s geographies, as well as upholding human rights.

In preparing the report, the Company relied on the GRI Standards (Core option) and ISO 26000:2010 (Guidance on social responsibility), as well as the Reference Performance Indicators of the Russian Union of Industrialists and Entrepreneurs (RSPP).

The Report underwent external assurance by PricewaterhouseCoopers Audit.

The Report contains forward-looking statements on the Company’s mid- and long-term plans, and their feasibility depends, among other things, on a number of economic, social and legal factors beyond the Company’s control. Consequently, actual results may differ from those plans.

The Report has been approved by Gazprom Neft’s Management Board and Board of Directors.

1 Hereinafter the “Report”.
2 The data on changes in the Company’s structure that occurred in 2018 are presented in the Corporate Governance section of Gazprom Neft’s 2018 Annual Report.
Identification of the Report’s key topics

In this Sustainability Report, Gazprom Neft makes a point of addressing the matters that hold the most significance for its stakeholders.

In the course of the non-financial reporting, the Company is guided by the principles of stakeholder engagement, completeness, materiality, balanced approach, clarity, sustainable development framework, accuracy, timeliness, and reliability.

The Report’s disclosures cover business obligations, including those set out in Russian and international documents (the UN Global Compact and the Social Charter of the Russian Business). Starting 2017, the Company includes the information on its contribution to the achievement of the UN Sustainable Development Goals into the report.

In order to determine the most material topics and respective indicators to be disclosed, the Company analyses:

> the results of monitoring the scope and scale of its impact on the economy, society and environment;
> stakeholder engagement themes and the information requests;
> research on Russian and international industry management practices in respect of sustainable development and sustainability reporting.

In the process of its interaction with stakeholders and identification of the Report’s material topics, the Company analysed the following:

> the results of surveying internal and external stakeholders for the purpose of defining the key topics of the Report;
> interviews with the Company’s management and employees;
> materials relating to Gazprom Neft’s regular interaction with the key group of stakeholders;
> recommendations that the Company received from the RSPP’s Council on Non-Financial Reporting in the process of public verification of the 2017 Sustainable Development Report;
> mass media coverage on the Company.

Based on the identification process, the Company mapped out the topics that it and at least one key stakeholder group find the most significant*. There were no significant changes in the list and scope of the Report’s material topics compared to last year.

*The map containing the full list of material topics and their scope can be found in Appendix 3 of the Report.
Impact on stakeholders’ opinions and decisions

Materiality of the Company’s impact on sustainable development aspects
List of topics that were identified to be the most significant for the Company and its key stakeholders

1 Strategy
2 Investment programme
30 Occupational safety and emergency preparedness
3 Financial stability
31 Health and safety
4 Operational efficiency
6 Product safety and quality
32 Reduction in injury and severity rates
14 Compliance
36 Personnel training and development
7 Innovations
19 Anti-corruption
21 Wastewater discharges
13 Corporate governance quality
35 Fair remuneration and social benefits
39 Contribution to social and economic development of regions
16 Human rights
22 Emissions
29 Environmental properties of products
8 Energy efficiency and conservation
23 Waste generation and management
26 Land and vegetation protection
43 Efficiency of social investments
37 Labour relations and employment
25 Environmental impact of the Company’s Arctic operations
40 Local community development programmes
17 Respect for the rights of indigenous peoples
9 The Company’s strategy on climate; greenhouse gas emissions.

*The numbers assigned to the topics correlate with their numbers in the Material Topics Map (Appendix 3 to the Report).
MESSAGE FROM
THE CHAIRMAN OF
THE MANAGEMENT BOARD
DEAR FRIENDS!

At Gazprom Neft, we remain committed to sustainable development principles. Financial and operating results are not the only measure of our success. We place a key emphasis on environmental protection and the responsible use of natural resources, safety, technological innovation, and consistent improvement of living standards across our footprint. A special focus area for us is employee engagement in the sustainable development of Gazprom Neft. We want all our people to understand and share the Company’s values and feel involved in achieving common goals.

The reporting year saw Gazprom Neft’s Board of Directors approve the new 2030 development strategy seeking to transform the Company into an industry champion in safety, efficiency, and technology-driven production. Underpinned by sustainability, corporate social responsibility and environmental protection principles, our new strategy sets ambitious goals for the Company. We are prepared to respond to the key challenge faced by every oil producer, which is to meet growing energy demand in the safest, most eco-friendly and efficient way possible using cutting-edge technologies.

We keep moving towards our Goal Zero: no harm to people, environment and property in working process. In 2018, we embarked on the transformation of our HSE system based on a risk-focused approach. As part of it, we identify key HSE risks, set up relevant barriers, verify them and take steps to ensure their reliability. Another focus area is the promotion of corporate safety culture. Last year, our HSE training programme covered 26,000 Gazprom Neft’s and over 13,000 contractors’ employees.

All these measures contribute to a continuous reduction in injury rates, which fell 21% in the reporting year.

We made considerable progress in ensuring environmental safety of our operations. Gazprom Neft supports the Paris Agreement on Climate Change and the Russian Government’s concept for creating a greenhouse gas emissions monitoring and measurement system. As part of refinery upgrades, we keep implementing our major environmental initiatives, including the construction of Biosfera innovative bio-treatment facilities at Omsk Refinery. We also expand our biodiversity preservation, water management, land and vegetation protection programmes. Special attention is paid to preserving the unique nature of the Arctic where we are running several large-scale investment projects. Our initiatives in the Arctic revolve around the zero-waste principle, which helps fully eliminate the risk of industrial and domestic waste contaminating the environment. To construct buildings at fields beyond the Arctic Circle, we leverage technologies that prevent the thawing of unique permafrost soils. We also arrange for deer crossings when routing pipelines.

A major employer, investor and taxpayer in the regions of its operation, Gazprom Neft contributes a lot to local development. We supply quality petroleum products, including bitumen and lubricants, under regional import substitution programmes. On the other side, we support local manufacturers, universities and technology companies by providing solid and sustainable demand for their products and services. Our social investment programme called Home Towns plays a key role in improving living standards across our footprint. Overall, it saw the implementation of over 250 projects to develop urban environment, social infrastructure, sports, education, culture and creative potential across many Russian regions. Gazprom Neft’s corporate volunteer movement is gaining traction, with over 4,700 employees having joined its ranks. These are social enthusiasts seeking to make the world a better place to live in.

Our people are truly the key asset to the Company as they drive its future growth and sustainable development. Today, we can say with confidence that Gazprom Neft has one of the best teams in the industry and in Russia. We deservedly won the international Randstad Award 2018 as the most attractive employer among Russian fuel and energy companies and were named No. 2 Employer of Choice in Russia. We make sure all our employees enjoy their job, while also encouraging their proactive behaviour and desire to develop themselves and the Company. To this effect, we have put in place a system of financial and non-financial incentives, social support and employee training. Our Corporate University offers over 2,500 courses, and we plan to expand its curriculum going forward.

We view sustainable development as the backbone of our business that will help create long-term value for the Company and its shareholders. Always striving for new achievements, we will keep working hard to make a significant contribution to environmental protection and social improvement.

Alexander Dyukov
Chairman of the Management Board, CEO at Gazprom Neft
Gazprom Neft is a vertically integrated company engaged in oil and natural gas exploration, production and sales, oil refining, and production and sales of petroleum products. We lead the oil sector in terms of efficiency.

Gazprom Neft comprises over 70 oil production, refining and sales companies in Russia, CIS and non-CIS countries. The Company boasts one of the industry’s best crude refining-to-production ratios and ranks among Russia’s Top 3 major hydrocarbon producers by volume. Our exploration, production and refining operations seek to introduce cutting-edge technologies, which propels the country’s oil industry.

In 2018, we delivered record financial results, posting the highest profit in our history. An innovation-driven company, Gazprom Neft leverages the best available solutions to achieve its strategic goals.

Gazprom Neft’s ordinary shares are listed on the Moscow Exchange in Russia. The Company’s shares are also traded overseas in the form of American depositary receipts (ADRs), mainly in the UK’s OTC market via the LSE IOB system.

**Geography of operations**

1. Russia
2. Angola
3. Belarus
4. Bulgaria
5. Bosnia and Herzegovina
6. Venezuela
7. Iraq
8. Italy
9. Kazakhstan
10. Kyrgyzstan
11. Latvia
12. Romania
13. Serbia
14. Tajikistan
15. Estonia
Core business

Gazprom Neft’s operating model is built on vertical integration. By operating across the value chain, including exploration, oil field development, production, refining, and sales of oil and petroleum products, the Company remains resilient and is well-positioned to increase efficiency going forward.

In order to keep up with the ever-changing market trends, achieve an even higher return on average capital employed, and meet its social obligations, Gazprom Neft is continuously improving on the strong points of each segment:
> enhances hydrocarbon and petroleum replacement to meet long-term energy demand;
> implements hydrocarbon exploration and production projects on oil and oil and gas fields in Russia and abroad, both onshore and offshore;
> develops the existing and builds new facilities for processing hydrocarbons and producing premium petroleum products that comply with the current technological, environmental and economic standards;
> makes each stage of the production chain more efficient and environmentally safe;
> expands the products and services offering for clients;
> fosters direct contacts with its retail and wholesale customers in Russia and beyond via a vast own sales network;
> maintains direct contacts with retail and wholesale buyers in Russia and beyond via its vast own sales network.

**OIL&GAS EXPLORATION AND PRODUCTION**

Gazprom Neft’s portfolio includes conventional and offshore oil and gas fields in a variety of development stages (from exploration to mature fields) in Russia and abroad, serving as the platform to increase output and maximise profit in line with the market environment. With 2,841 mtoe of aggregate proven and probable reserves (including the Company’s share in subsidiaries’ reserves accounted for by the equity method and excluding NIS reserves), Gazprom Neft ranks side by side with the world’s largest oil companies.

**OIL REFINING**

Gazprom Neft is among Russia’s leaders in oil refining, consistently working to improve the efficiency of the production processes in this area. The Company operates three own refineries in Omsk, Moscow and Pančevo (Serbia) and has access to the refining capacities of the Slavneft-YANOS joint venture in Yaroslavl and Mozyr Refinery in the Republic of Belarus. The Company is implementing massive technology and environmental compliance upgrades at its refineries in order to improve their efficiency and safety.

**SALES OF OIL AND PETROLEUM PRODUCTS**

Gazprom Neft sells oil and petroleum products across Russia and in over 70 other countries. Its filling stations constitute one of the largest and most geographically diverse distribution networks on Russia’s retail motor fuel market.

Gazprom Neft improves the efficiency of its sales by splitting the relevant processes into different business lines: retail sales and small wholesale of motor fuels, petroleum product sales to industrial customers, including aviation and marine fuel sales, as well as production and distribution of lubricants and bitumen products. The Company has set up dedicated subsidiaries to perform these functions.

Gazprom Neft is among the top suppliers of motor fuel to the domestic market and a leader in the Russian retail aviation fuel market. By growing its distribution network and expanding its product range, the Company is able to win ever-larger shares in the Russian lubricant and bitumen markets.
Sustainable development

TALENT POOL DEVELOPMENT

The Company takes steps to attract, engage and retain the best available employees, while also working hard to develop its employer brand. Thanks to this, Gazprom Neft has been recognised as a top employer in Russia.

For more details on talent pool development, see p. 72

<table>
<thead>
<tr>
<th>Year</th>
<th>Average monthly salary (₽’000)</th>
<th>Turnover rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>84.8</td>
<td>16.6</td>
</tr>
<tr>
<td>2015</td>
<td>100.2</td>
<td>16.2</td>
</tr>
<tr>
<td>2016</td>
<td>104.9</td>
<td>15.2</td>
</tr>
<tr>
<td>2017</td>
<td>112.9</td>
<td>15.1</td>
</tr>
<tr>
<td>2018</td>
<td>122.6</td>
<td>12.9</td>
</tr>
</tbody>
</table>

HEALTH AND SAFETY

Ongoing introduction of global best practices in health and safety helped the Company cut its injury rates.

12 Ђ BN investments in health and safety improvements

Lost Time Injury Frequency Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>LTIF Reduction y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0.520</td>
</tr>
<tr>
<td>2015</td>
<td>0.472</td>
</tr>
<tr>
<td>2016</td>
<td>0.402</td>
</tr>
<tr>
<td>2017</td>
<td>0.326</td>
</tr>
<tr>
<td>2018</td>
<td>0.258</td>
</tr>
</tbody>
</table>

For more details on health and safety, see p. 94

ENVIRONMENT

The Company strictly complies with Russian environmental laws and puts in every effort to reduce the negative impact of its operations, investing heavily in environmental protection. Minimising its environmental footprint is a key priority for the Company.

19 Ђ BN investments in environmental protection

Environmental impact fees (₽ m)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>545.6</td>
<td>837.1</td>
<td>270.8</td>
<td>210.9</td>
<td>143.4</td>
</tr>
</tbody>
</table>

For more details on environmental protection, see p. 101
CONTRACTOR MANAGEMENT RESPONSIBILITY

Compliance with corporate safety standards is a key criterion in selecting Gazprom Neft’s contractors. Ensuring conformity with legislative and corporate industrial safety requirements is far from being the only focus area in the Company’s contractor relations policies. At Gazprom Neft, we seek to create an environment that would promote workplace safety and encourage suppliers to build long-term partnerships with the Company.

For more details on supply chain responsibility, see p. 92

SOCIAL INVESTMENTS

The Home Towns social investment programme is one of the most successful business initiatives for the development of local communities in Russia. In 2012, Gazprom Neft chose to combine all its social investment initiatives into a single programme, shifting focus from targeted support towards a social investment approach ensuring consistent improvement of living standards across the Company’s footprint.

For more details on social investments, see p. 127

ENERGY CONSUMPTION AND EFFICIENCY

To improve energy efficiency, the Company upgrades equipment at its key production facilities and conducts regular energy audits, which serve as a basis for action plans to lower specific power consumption.

For more details on energy efficiency, see p. 115
PERFORMANCE HIGHLIGHTS

Exploration and production

The Company relies on state-of-the-art technologies and a balanced investment policy to effectively replace its resource base. This is key to further growth despite the volatile oil prices, changing tax environment and the deteriorating structure of remaining commercial reserves across its conventional oil production clusters. Expansion of the Group’s resource base in 2018 was supported by the improved exploration and production drilling technology and introduction of advanced non-seismic exploration techniques.

Reserves of the Company are audited in line with PRMS standards and more conservative SEC5 standards. Based on the Independent Reserves Assessment Report prepared by DeGolyer and MacNaughton, as at 31 December 2018, its aggregate proven and probable reserves (including the Company’s share in subsidiaries’ reserves accounted for by the equity method) estimated in accordance with PRMS standards were 2,841 mtoe, excluding NIS reserves. In 2018, reserves increased 2.2% y-o-y. Gazprom Neft’s ratio of proven reserves to production (PRMS classification) is 17 years. The ratio of hydrocarbons produced in 2018 to new reserves (including new acquisitions) is 165%. Gazprom Neft’s largest discovery of the year was a new field in the Sea of Okhotsk (off the shore of the Sakhalin Island). Named Triton, the new deposit has geological reserves of more than 137 mtoe. Gazprom Neft continues exploration of offshore Sakhalin, and reserves in the region may increase. The Company tapped into four new exploration areas (Yamal, Orenburg Region, Khanty-Mansi Autonomous Area – Yugra, and north-eastern Gydan) while also gaining access to 21 licence blocks.

The Company strengthens its leadership in hydrocarbon production both in Russia and globally focusing on high-impact technologies and rational development of the Russian Arctic resources. Its total output (including shares in joint ventures) increased

Leading deposits by oil production in 2018

<table>
<thead>
<tr>
<th>Deposit</th>
<th>2018 Production (mtoe)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Novoportovskoye</td>
<td>7.1</td>
<td>+20%</td>
</tr>
<tr>
<td>Prirazlomnoye</td>
<td>3.2</td>
<td>+21%</td>
</tr>
<tr>
<td>Messoyakhneftegaz assets</td>
<td>2.2</td>
<td>+41%</td>
</tr>
</tbody>
</table>

1 The Company’s share of production.
3.5% y-o-y to 92.88 mtoe. The average daily production across the Group amounted to 254.45 ktoe (up 3.5%).

The strongest drivers behind production growth were the Company’s largest projects: Prirazlomnoye, Novoportovskoye and Vostochno-Messoyakhskoye fields.

The Company continues forming a strong cluster in the Arctic to secure its oil and gas potential for the future. The plan for 2019 is to start development in the northern part of the Novoportovskoye field.

“We are a different company today, whether measured by reserves and production or by the complexity of the projects we deliver. To make another step forward, our business processes should evolve. We want to become a global leader in technology, efficiency and safety, and a model for others to follow. To make it happen, we need to change too.”

Vadim Yakovlev
First Deputy CEO
Gazprom Neft

Gazprom Neft’s hydrocarbon reserves (PRMS classification),\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>In development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undeveloped</td>
<td>639</td>
<td>680</td>
<td>726</td>
<td>719</td>
<td>734</td>
</tr>
<tr>
<td>Proven</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probable</td>
<td>1,112</td>
<td>1,181</td>
<td>1,205</td>
<td>1,259</td>
<td>1,277</td>
</tr>
<tr>
<td>2P</td>
<td>2,555</td>
<td>2,699</td>
<td>2,719</td>
<td>2,781</td>
<td>2,841</td>
</tr>
<tr>
<td>Possible</td>
<td>1,084</td>
<td>1,176</td>
<td>1,189</td>
<td>1,240</td>
<td>1,204</td>
</tr>
</tbody>
</table>

Source: Company data

Hydrocarbon production [mtoe]

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft(^2)</td>
<td>53.81</td>
<td>55.36</td>
<td>59.90</td>
<td>63.28</td>
<td>65.36</td>
</tr>
<tr>
<td>Slavneft(^2)</td>
<td>8.44</td>
<td>8.11</td>
<td>7.88</td>
<td>7.52</td>
<td>7.28</td>
</tr>
<tr>
<td>Arctigas(^3)</td>
<td>3.54</td>
<td>12.13</td>
<td>13.47</td>
<td>13.50</td>
<td>14.58</td>
</tr>
<tr>
<td>Northgas(^3)</td>
<td>0.46</td>
<td>4.10</td>
<td>4.59</td>
<td>3.83</td>
<td>3.36</td>
</tr>
<tr>
<td>Messoyakhaneftegaz(^3)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.36</td>
<td>1.62</td>
<td>2.30</td>
</tr>
<tr>
<td>Evrotek-Yugra(^3)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.00</td>
</tr>
</tbody>
</table>

\(^1\) Including consolidated companies.
\(^2\) Excluding NIS reserves.
\(^3\) Share of the Company in production.

\(^{\text{a}}\) Average daily production by Gazprom Neft Group, ktoepd
Triton: new Sakhalin field

In November 2018, Gazprom Neft discovered a new field in the Sea of Okhotsk off the shore of Sakhalin. It was named Triton after the ancient sea god, Neptune’s son. Triton contains ultralight oil with no impurities located at low depths. The field was discovered in the Bautinsky formation at the Ayashsky licence block. First production is expected in 2028–2030. The Neptune field discovered there a year before has 415.8 mt of oil reserves according to an updated estimate. Gazprom Neft continues exploration offshore Sakhalin, with the possibility of increasing reserves in the region. The Triton discovery was a major expected development both for Gazprom Neft and other companies operating in the region. Triton is located in an area where no prospecting has been done before. Gazprom Neft’s success may mean that new discoveries are possible.

Oil refining

Following the completion of upgrades and capital repairs at the Russian refineries of the Group in 2017, the volume of oil refined in 2018 increased by 7.0%. In 2018, the Company continued implementing the second phase of its environmental compliance and technology upgrade programme. It pursues strategic goals in oil refining and aims to increase oil conversion to 99% by 2025.

The year 2018 saw a sizeable growth in the output of light petroleum products (gasolines, diesel fuel, jet fuel and naphta).

A 14% increase in bitumen production was associated with rising domestic demand and export growth.

<table>
<thead>
<tr>
<th>Refining volume (mt)</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omsk Refinery</td>
<td>21.28</td>
<td>20.90</td>
<td>20.48</td>
<td>19.58</td>
<td>21.00</td>
</tr>
<tr>
<td>Moscow Refinery</td>
<td>10.76</td>
<td>11.00</td>
<td>10.71</td>
<td>9.37</td>
<td>10.50</td>
</tr>
<tr>
<td>NIS(^1)</td>
<td>2.61</td>
<td>2.94</td>
<td>3.10</td>
<td>3.34</td>
<td>3.55</td>
</tr>
<tr>
<td>Slavneft – YANOS(^2)</td>
<td>7.65</td>
<td>7.63</td>
<td>7.47</td>
<td>7.74</td>
<td>7.86</td>
</tr>
<tr>
<td>Mozyr Refinery(^2)</td>
<td>1.17</td>
<td>0.60</td>
<td>0.13</td>
<td>0.08</td>
<td>0.00</td>
</tr>
</tbody>
</table>

\(^1\) Gazprom Neft holds a 56.15% stake in NIS (Serbia), which operates two refineries – in Pančevo and Novy Sad.
\(^2\) Gazprom Neft’s equity share.
The ongoing operational efficiency improvement at refineries is a meaningful effect of the programme to upgrade refining capacities. When the second stage of the programme is completed, Omsk and Moscow refineries will additionally enhance the conversion rate and increase the yield of light petroleum products while reducing their environmental footprint.”

Anatoly Cherner
Deputy CEO for Logistics, Refining and Sales
Gazprom Neft

### Production breakdown by oil product (mt)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor gasoline</td>
<td>8.84</td>
<td>9.08</td>
<td>9.18</td>
<td>8.60</td>
<td>8.86</td>
</tr>
<tr>
<td>Naphtha</td>
<td>1.36</td>
<td>1.45</td>
<td>1.56</td>
<td>1.38</td>
<td>1.95</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>12.15</td>
<td>11.87</td>
<td>12.02</td>
<td>11.45</td>
<td>12.32</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>2.99</td>
<td>3.00</td>
<td>3.04</td>
<td>3.04</td>
<td>3.47</td>
</tr>
<tr>
<td>Bunker fuel</td>
<td>4.08</td>
<td>3.67</td>
<td>2.41</td>
<td>2.67</td>
<td>2.58</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>7.39</td>
<td>7.20</td>
<td>6.72</td>
<td>5.70</td>
<td>6.20</td>
</tr>
<tr>
<td>Bitumen and coke</td>
<td>2.03</td>
<td>2.02</td>
<td>2.19</td>
<td>2.73</td>
<td>3.07</td>
</tr>
<tr>
<td>Other</td>
<td>2.80</td>
<td>2.81</td>
<td>2.83</td>
<td>3.06</td>
<td>2.95</td>
</tr>
</tbody>
</table>

Source: Company data

Made in Russia: construction of Euro+ refining unit at Moscow Refinery (coverage by RBC TV)

Gazprom Neft’s Omsk Refinery makes production of Euro-5 gasolines more efficient

Made in Russia: Gazprom Neft’s high-tech bitumen (coverage by RBC TV)
Sales of oil and petroleum products

Gazprom Neft is a wholesaler of oil and petroleum products both in Russia and abroad. Small wholesale and retail sales, including sales at filling stations, are managed by dedicated subsidiaries.

**OIL SALES**

In 2018, crude oil sales decreased 8.6% year-on-year to 24.26 mt as production increased at Russian refineries of the Company.

Domestic sales dropped 22.6% to 4.31 mt, and total oil exports decreased 6% to 18.70 mt. By contrast, oil sales to global markets rose 17.9% to 1.25 mt on the back of increased production in Iraq.

Exports of Arctic oil will continue to grow (interview)

In 2018, Gazprom Neft’s own fleet received enough vessels to ensure uninterrupted service of the Company’s fields in the Arctic region. With the fully-fledged own Arctic fleet, Gazprom Neft ensures year-round oil delivery to global markets with maximum cost efficiency and minimal risk of interruptions caused by external negative factors.

**PETROLEUM PRODUCT SALES**

The growth of sales in 2018 was mostly associated with demand in the domestic market where petroleum product sales increased 6.1%.

Cumulative exports of petroleum products and international sales grew 4.6% to 16.24 mt in 2018. The biggest driver of exports was growing sales of naphtha, fuel oil and jet fuel to non-CIS countries. In 2018, actual sales of fuel oil on the domestic and international markets were driven by cost considerations and deemed optimal given the existing demand and price levels.
Arctic fleet is essential for the Company’s projects in the Arctic region. Efficient logistics is key to continuous year-round transportation of crude oil from the Arctic fields.

In 2018, Gazprom Neft’s own Arctic fleet was joined by Alexander Sannikov, a high-tech icebreaker built at the Vyborg shipyard (Leningrad Region). The vessel is named after Alexander Sannikov, an ex-head of Gazprom Neft Oil Refining Division, who supervised large-scale projects of the Company.

In August, Alexander Sannikov started escorting tankers in the Gulf of Ob from the Arctic Gates terminal to the storage tanker moored in the Kola Bay. In December, the fleet was joined by the second icebreaker named after Russian hydrographer, geodesist and polar explorer Andrey Vilkitsky.

The two icebreakers are some of the most advanced vessels in their class. They are highly maneuverable and need just 60 seconds to make a 360-degree turn. Capacity of their propulsion units is comparable to those of nuclear icebreakers and allows them to move through up to 2 m thick ice.

The icebreakers are equipped with state-of-the-art automatic power supply and navigation systems. Their electronic equipment can be controlled remotely.

The vessels are designed around the zero-waste principle: all ship-generated waste is either recycled or stored until the ship returns to the port.
Premium sales\(^1\) in the reporting period increased 3.7% to 27.10 mt. Sustained growth of premium sales was a result of the product range expansion, production capacity upgrade and implementation of innovative solutions in customer segments.

Focus on aviation fuel, premium bitumen and lubricant sales allowed the Company to increase its share in relevant retail segments in the reporting year. Aviation fuel and bitumen sales in the premium channels were up 10.6% and 22.9%, respectively. Higher demand in Russia’s north-western and Black Sea ports drove a 7.7% year-on-year increase in bunkering volumes in 2018. Premium sales of oils and motor fuels increased 6.9% and 1.9%, respectively.

Development of small wholesale and retail sales of petroleum products is one of the Company’s priorities. Having a nationwide brand with strong recognition and customer confidence helps the Company to deliver on one of its strategic goals of becoming a leader in Russia and the CIS in terms of retail sales and filling station network performance by 2025.

As at the end of 2018, the total retail sales of motor fuels via filling stations grew 2.7% year-on-year to 11.34 mt, including 9.12 mt in Russia. The Company confirmed its status as a Russian market leader in terms of average daily sales per filling station, which grew 3.3% year-on-year reaching 20.7 tpd.

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\(^1\) Premium sales are:

\[\text{sales of petroleum products via premium marketing channels, both retail and small wholesale. This group includes all product sales at filling stations and tank farms, as well as into-plane and direct-to-vessel fuelling, small wholesale at refuelling terminals at airports and seaports;}
\]

\[\text{sales of premium petroleum products with a higher added value due to advantages over other products in the same category. This group includes sales of packaged products (oils in barrels and cans, polymer modified asphalt cements (PMAC) in clevertainers, etc.), premium-branded liquid lubricants (Gazpromneft, G-Family, Texaco), premium-branded bituminous materials (PMAC, polymer modified bitumens, bitumen emulsions, etc.), all brands of bitumen-based products, and potential wholesale of premium motor fuels (G-Drive, etc.).}\]
Financial results

In 2018, Gazprom Neft showed sustainable growth in key financial indicators. The Company’s revenue went up by 28.7% to ₽ 2.49 tn on the back of a favourable price environment, greater operational efficiency, and continuing production growth at the Novoportovskoye, Prirazlomnoye and Vostochno-Messoyakhskoye fields.

In 2018, adjusted EBITDA increased by 45%. The growth was driven by favourable oil prices globally and domestically, successful development of new upstream projects, and increased operating efficiency.

In 2018, the Company’s net profit grew by almost 49%, driven by stronger oil and petroleum product prices as per unit upstream and refining expenses went down. Cost cutting was made possible by an upgrade of refineries and introduction of innovations in the upstream segment.
INNOVATIONS

The Company develops technologies that help address challenges as we move towards our strategic objectives.

“From strategic goals to engineering projects” is the principle that underpins Gazprom Neft’s approach to innovations. Our Company develops and implements technologies to tackle challenges on the way to achieving its strategic goals.

In 2018, the portfolio of the Upstream Division’s Technology Strategy included over 100 projects across all priority areas, such as exploration technologies focused on resource base development, well drilling and completion, oil recovery enhancement, capital construction, etc.

In 2018, the Company approved the Offshore Technology Strategy with the following priority areas:

- prospecting and exploration;
- accident monitoring, prevention and management in ice conditions;
- logistics in Arctic conditions;
- Arctic APG utilisation;
- offshore field development;
- safe offshore development;
- introduction of digital technologies.

The technologies being developed in partnership with leading Russian R&D centres and educational institutions enable the Company to increase the yield of high-margin products best suited to each specific refinery while also lowering its operating costs.

Technological development

Technological development is a focus of Gazprom Neft’s Strategy 2030. Technology advancements will enable the Company to efficiently deliver its large-scale upstream projects and consolidate leadership in strategic areas.

Our priorities include:

- higher recovery rate at multiphase fields;
- development of multiphase fields;
- development of low-permeability reservoirs;
- efficient and safe offshore development in ice conditions;
- catalyst development and production to support oil refining.

In each and every priority area, projects are ongoing or planned to develop, test and implement necessary technologies.
KEY COMPONENTS OF THE COMPANY’S INNOVATIONS INFRASTRUCTURE:

> **Scientific and Research Centre** provides analytical, methodological and R&D support to the Upstream Division’s key production and technical functions.

> **Bazhen Technology Centre** is a subsidiary that serves as an open industry platform and aims to bring together the efforts of all stakeholders in order to create a viable technology to develop the Bazhenov Formation.

> **Centre for Offshore Competencies** is planned to be utilised by the Company to integrate its key competencies in developing and operating offshore projects.

> **Technopark of Industrial Automation**, established in Omsk as part of the Company’s import substitution strategy, acts as a unique platform for research and development, pilot testing and high-tech solutions for the automation of refineries.

> **Technopark of Corporate Information Technologies**, based in St Petersburg, aims to establish direct interaction between developers and manufacturers of IT solutions for the oil and gas industry. Gazprom Neft provides its participants with a platform to evaluate and test prospective solutions and innovations.

> **House of Innovations**, launched in St Petersburg in 2018, is a cross-functional space for project work using end-to-end technologies and data. The House of Innovations brings together leading experts in neural networks, digital platforms, industrial Internet of things, blockchain technologies, augmented and virtual realities and other Industry 4.0 innovations.

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**ENHANCED OIL RECOVERY**

Gazprom Neft develops chemical solutions for enhanced oil recovery at depleted fields in Western Siberia. This becomes especially important as mature fields dominate the Company’s asset portfolio. A pilot project for alkaline-surfactant-polymer (ASP) flooding was completed at the Zapadno-Salymskoye field in 2018. The oil recovery factor added 17 pp, which evidences the technology is highly effective. Our primary task is to reduce chemicals costs to improve economics of chemical flooding projects.

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**Technologies for developing the Bazhenov Formation**

The Company intends to develop hard-to-recover and unconventional reserves, including the Bazhenov Formation, in order to offset naturally declining production at conventional fields. This strategic project aims to create a technology stack to develop the Bazhenov Formation. It is considered to be of national importance for the Russian Government and the industry. In 2018, Gazprom Neft put into operation high-tech wells producing at high initial rates. This testifies that multi-frac can make a real difference for the Bazhenov Formation. Frac modelling for the Bazhenov Formation was performed using a unique simulator developed in cooperation with Russian R&D institutions. The Company set up the Bazhen Technology Centre to operate the national project. It serves as a platform uniting efforts of the government, researchers, industry players and businesses to create innovations enabling the development of unconventional reserves of the Bazhenov Formation. Technology developers and equipment manufacturers will be able to leverage the pilot platform to test and fine-tune their solutions for further implementation at the Company’s fields. More importantly, the technologies in the making and new competencies will be applicable to other hard-to-recover reserves across Russia.
Digital transformation is one of the Company’s priorities. Across all segments of our operations, we are building next generation systems of process management. These ensure:

- end-to-end integrated management for maximum value creation;
- digital twins to optimise operating modes and maintenance plans;
- cognitive systems to support decision making by operators.

Projects involve all stages of the value chain from upstream to downstream.

In 2018, Gazprom Neft established the Digital Transformation Directorate, a new unit responsible for effectively implementing IT projects and unlocking synergies in order to bring the Company’s key competencies to a new level.

As part of digital transformation, the Company created centres for competencies in machine learning, AI, augmented and virtual realities, product design, agile software development, etc. The Upstream Division is running the Cognitive Geology and Cognitive Engineering projects and operates the Centre for Capital Construction Management, while the Downstream Division now includes the Efficiency Control Centre and the Omsk and Moscow Refinery Production Control Centre. Also, Gazprom Neft started developing EvOil, a digital platform for production processes, and the Corporate Platform for Analytics and Data Management.

Technologies for APG treatment

One of the Company’s promising innovations are mobile modular units for APG treatment, which help separate and recycle heavy APG components, addressing the issue of crude oil being taken away with gas and wet hydrocarbons being flared, as well as gas transportation complications. New units are five times smaller than conventional ones. The solution is set to offer multiple benefits in terms of better environmental protection, considerably lower costs related to infrastructure construction and maintenance, and higher efficiency of gas-consuming equipment.

Digital model of the Achimov Formation

In 2018, Gazprom Neft developed the industry’s first digital model of the Achimov Formation, a set of oil-bearing strata located above the Bazhenov Formation in the central part of the West Siberian basin. The complex structure calls for innovative exploration and production techniques. New algorithms for big data analytics were used to process a vast array of geological data. The digital twin of the Achimov Formation will form the basis for the development strategy.
IMPORT SUBSTITUTION

A larger procurement share of Russia-made products is on the list of Gazprom Neft’s priorities. To deliver on this goal, the Company is making use of existing solutions while also supporting the drive to innovate.

Gazprom Neft’s Department of Technological Partnerships and Import Substitution is specifically tasked to monitor the Russian market of goods and materials for import substitution on a regular basis. The Company’s import substitution programme translates into industrial strategies and roadmaps for alternative substitution. We also promote import substitution when it comes to our regional development programmes.

In the past five years, the Company has conducted more than 120 tests on the newest Russia-made equipment and created some 50 unique products to replace imported ones, along with another 170 products being developed. In addition, Gazprom Neft supported Russian development companies’ applications for external financing amounting to more than ₽6 bn, including subsidies from the Industrial Development Fund.

In 2018, Gazprom Neft expanded its procurements with more than 15 new products never before made in Russia. The Company entered into strategic partnership agreements with Roscosmos, Severstal, Geoenergomash and Becema, Neftegazavtomatika, and signed an agreement with Lukoil and Tatneft for the cooperation in developing oilfield services based on import-substituting equipment and technologies with a focus on high-tech drilling services. Joint working groups with Gazprombank and HMS Group keep working.

Gazprom Neft partners with leading R&D institutions to develop and productionise import-substituting products on an ongoing basis. Some of these products include:

- low-viscosity base oils for drilling muds (branded as Gazpromneft Driline);
- new ultrahard materials for drill bit blades created in collaboration with the Skolkovo Institute of Science and Technology;
- new version of a cracking catalyst with an active matrix, which provides benefits compared to Western catalysts based on an inert matrix. This was a joint development with the Institute for Hydrocarbon Processing Technologies of the RAS Siberian branch.

Going forward, the import substitution programme will help the Company and its partners create in Russia more than 100 new high-tech products. These will include drilling units, equipment and reagents for hydraulic fracturing, power generation, compression and downhole equipment, marine engineering solutions, equipment for offshore projects, personal protective equipment, and much more.

For more details, see the Regional Policy and Development of Local Communities section of this Report.
CASE STUDY: IMPORT SUBSTITUTION

Gazprom Neft partners with leading R&D institutions to develop and productionise import-substituting products on an ongoing basis.

The Gazpromneft Catalytic Systems subsidiary is set up as part of the Gazprom Neft Group to develop an import-substituting catalyst business. Its key objective is to construct a plant in Omsk to produce cutting-edge oil refining catalysts and develop the catalytic business.

In 2018, the Omsk-based Institute for Hydrocarbon Processing Technologies of the RAS Siberian branch joined efforts with Omsk Refinery to develop a new cracking catalyst modification. What makes it unique is its matrix. The new catalyst based on an active matrix is superior to Western catalysts based on an inert matrix.

During 2018, Omsk Refinery was migrating its catalytic crackers from the prior catalyst to the new one, which proved to be highly effective. It will be a first choice catalyst to produce high-quality motor fuels. It also won Gazprom’s award in research and development.

This cracking catalyst modification is supposed to be competing with imported catalysts, being on a par with them but much cheaper in production due to lower pressure and temperature.

In 2018, the Skolkovo Institute of Science and Technology digitally modelled the existence of new ultrahard materials, following which the RAS Institute for High-Pressure Physics confirmed their feasibility. Physical and mechanical tests proved the predicted specifications. The Scientific and Research Centre filed patent applications for Russian certification with the Federal Institute for Industrial Property and for international PCT certification. In 2019, the Company started developing a technology to manufacture drill bit blades based on new materials and looking for industrial partners to produce the same. These materials are likely to have other industrial applications, too.

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1 Catalytic cracking is a technique to process petroleum fractions with a catalytic converter (a compound that accelerates chemical reactions) into high-octane gasoline and other products.

2 Matrix is a porous carrier with an active agent which helps maintain catalyst performance in a high-temperature environment. The matrix can be either inert, which allows entry for feedstock molecules and removal of cracking products, or active. The latter is used to precrack larger feedstock molecules.
PRODUCT QUALITY ASSURANCE

The Company is continuously working to maintain and improve product quality and control reliability. The major document defining Gazprom Neft’s principles in this area is the Quality Policy aimed at driving efficiency in production and sales of high quality products compliant with Russian and international standards and regulations, and meeting customer requirements.

Heads of production and sales subsidiaries are responsible for implementing the policy and fulfilling quality-related obligations.

To meet the policy goals, the Company runs programmes focused on:
- product quality improvement;
- operational excellence;
- comprehensive automation of production processes;
- improvement of technologies and process flows;
- enhancement of environmental and industrial safety;
- development of production and sales infrastructure;
- professional training of personnel.

The Company introduced quality management at all corporate levels, with an integrated ISO 9001-compliant quality management system in place at Gazprom Neft’s production and sales subsidiaries. 2018 saw the system surveillance audits at Moscow and Omsk refineries, and ISO recertification at Gazpromneft Marine Bunker, Gazpromneft- Shipping, all Gazprom Neft’s major polymer modified bitumen facilities, including bitumen units of Moscow and Omsk refineries, production site of Slavneft-YANOS, and Ryazan Bitumen Binders Plant.

The system is subject to assessment using internal and external independent audits, comprehensive customer satisfaction surveys, review of customer and counterparty feedback, and industry benchmarking.

Internal and external audits held in 2018 deemed the quality management system to be effective and efficient.

QUALITY CONTROL

The Company exercises an ongoing control of feedstock and petroleum product quality at all stages of production and sales.

The Company’s refineries have testing laboratories to monitor quality throughout the production cycle, from analysing feedstock and materials to end-product shipment.
Share of products with enhanced environmental features in total production, (\%)

<table>
<thead>
<tr>
<th>Показатели</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro-5 motor fuels</td>
<td>90</td>
<td>95</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Engine oils compliant with Euro-4 and later standards</td>
<td>17</td>
<td>23</td>
<td>25</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td>Low-viscosity marine fuel, ULSFO (ultra-low sulphur fuel oil) 0.1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9</td>
<td>25</td>
</tr>
</tbody>
</table>

At filling stations, mobile or stationary laboratories run additional tests of the fuel’s physical and chemical parameters at least once a month. At Gazpromneft-Aero’s warehouses, aviation fuel goes through several levels of quality control as part of its reception, storage, preparation and feeding for aircraft fuelling. The R&D centre of Gazpromneft Bitumen Materials performs additional tests of bitumen product quality, while an integrated optimised planning system helps ensure reliable and smooth deliveries.

The Company’s products are assessed for their safety for people and the environment and recognised as compliant with Russian and international standards and regulations [including the requirements of the Eurasian Economic Union (EAEU) and Russian GOSTs]. Their qualitative characteristics meet international standards like API, ACEA, ILSAC, DIN, and ISO 8217.

All regulated products (motor gasoline, jet, diesel and bunker fuel, fuel oil, asphalt cement) have declarations of conformity to the EAEU’s technical regulations. Each product batch is checked for compliance with environmental safety requirements, with bunker fuels also regulated by in-house standards of the organisation (STO) and deemed compliant with ISO 8217.

CUSTOMER RELATIONS

Gazprom Neft builds direct and long-term relations with its customers by fostering an open and mutually respectful dialogue, providing timely and reliable information about products and services, and streamlining query and claim management. The Company continuously monitors customer satisfaction with product and service quality, studies key needs and offers tailored service.

The Company uses a wide range of communication channels to educate various customer groups (retail, corporate and wholesale).

Each product batch is furnished with quality and safety data sheets and a certificate of compliance with standardisation procedures or the EAEU’s technical regulations. Standardisation documents or amendments thereto are subject to mandatory approval by the customer.

Exported products come with REACH-compliant safety data sheets (SDS), while those sold domestically have an SDS conforming to the applicable Russian laws.

Products that are sold domestically have safety data sheets conforming to the applicable Russian laws. All of the Company’s petroleum products are categorised by hazard class specified in shipping documents [standardisation documents and safety data sheets compliant with the Globally Harmonised System of Classification and Labelling of Chemicals (GHS)].

For lubricants, the Company developed 88 safety data sheets and revised some 125 in line with Regulation (EC) No. 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the registration, evaluation, authorisation and restriction of chemicals (REACH). In 2018, the Company also drafted and registered GOST R 52056-2003-compliant safety data sheets for polymer modified asphalt cements and an SDS for a soil reinforcement admixture.

Russia’s 100 Best Goods

Gazprom Neft’s motor fuels and oils won a quality seal at the Russia’s 100 Best Products nationwide contest. The gold winners included G-Drive 100 high-octane gasoline, RMD-80, bunker fuel with enhanced environmental features and automotive propane produced at Omsk Refinery, as well as Gazprom Neft oil for gasoline engines produced at Gazpromneft-Lubricants.
Corporate and wholesale customer relations

The Company communicates product quality information to corporate and wholesale customers through:
> information and technical support of supplies;
> direct dialogue between the Company’s management and customers at training courses and workshops for business partners and consumers, meetings and awareness sessions with representatives of regions’ industry ministries;
> disclosures on corporate websites and external online resources;
> marketing and promotion events;
> loyalty programmes;
> package branding.

To foster relations with corporate and wholesale customers and assess quality satisfaction, the Company uses various feedback tools and engages in polling, collecting and analysing queries, conducting surveys and focus groups, creating joint working groups, and running joint tests of petroleum products’ quality.

At Moscow Refinery, the quality of saleable products met the expectations of end users, with no grounded complaints filed. At Gazpromneft Bitumen Materials, the customer loyalty review measured the respective index at 78.2, up 1.6 points compared to 2016, when the first measurement was carried out. In the reporting year, the customer satisfaction index at Gazpromneft-Lubricants went up to 3.23 points vs 3.08 in 2017.

Retail customer relations

To ensure a prompt response to customer queries, the Company put in place a single support centre operating 24/7 and leveraging various traditional and digital communication tools.

All queries are sorted by type and subject, registered and processed in a shared system. Throughout the month, the Company monitors the quality of customer consultancy across all communication channels, taking action to introduce the required improvements. In addition, the Company regularly assesses end consumer satisfaction at all stages of servicing.

The key indicator of Gazprom Neft customers’ loyalty, the NPS index, remained flat in 2018 vs 2017 (adjusted for the price) and stood at 59 points. This speaks to high customer loyalty and their willingness to recommend Gazprom Neft’s filling stations. In order to expand its customer base and increase loyalty, the Company organised seven nationwide and regional advertising campaigns in 2018. Marketing events organised by the Company covered 5.3 million retail customers. In 2018, the Company also held 10 dedicated marketing campaigns covering over 2.6 million customers.

In the reporting year, Gazprom Neft launched AZS.GO, a mobile application designed to facilitate fuel sales and payments at its filling stations. Developed in-house, the mobile app helps customers to make an order by entering the number of litres or an amount of money and pay for fuel without leaving the car with a linked bank card or via ApplePay. It also searches for gas stations by location and fuel price. Using the app reduces the fuelling time 1.5–2 times. Today, 400 Gazprom Neft stations are already connected to this mobile service. Another application, Gazprom Neft Filling Station Network, offers a number of other services, such as insurance, vehicle inspection, repair and motor mechanic’s advice. Over 160 thousand users visit the Services section of the app every month. In 2018, the number of Gazprom Neft mobile app users reached 1.85 million.

Gazprom Neft filling stations enjoy the strongest demand

Gazprom Neft retail network was the most popular among Russian drivers, according to Romir’s 2018 survey in 21 regions.

40% of the respondents named Gazprom Neft filling stations as the most frequently visited due to the availability of petroleum products, fuel price and quality, serviceable equipment, convenient location and working hours, as well as a wide offering of non-oil products and services. For 93% of the interviewed, the key factor was the fuel quality, with G-Drive cited as the best known and the most frequently purchased branded motor fuel by 37% of car owners. The Company’s retail network ranked first in terms of brand recognition (39% of respondents).
In its cooperation with counterparties, Gazprom Neft focuses on being open to the market, offering fair prices, and building long-term structured relationships.

The Company is committed to promoting long-term contracts, developing incentives for counterparties, and exploring flexible pricing mechanisms. To strengthen its counterparty relationships, Gazprom Neft seeks to improve its supply chain management practices and ensure transparent selection of candidates for procurement procedures.

**Supplier relationship priorities:**
- transparency and openness
- competition
- equality
- mutual guarantees
- confidentiality
- awareness

The Company has adopted standards for supplier engagement and screening, as well as further counterparty relationships, including production inspections and performance assessment. The criteria for screening suppliers and assessing their performance are defined by a group of units that ensure they meet independence and impartiality requirements. Counterparty selection and cooperation management is underpinned by an ISO 9001:2015-compliant integrated management system. In 2018, an annual audit was performed at Gazprom Neft Procurement’s Materials and Equipment Division to verify the compliance of its integrated management system with ISO 9001:2015, STO Gazprom 9001-2012, and the Company’s standards and regulations.

Gazprom Neft runs a supplier management system to make sure that materials and equipment suppliers meet eligibility criteria prior to admitting them to the bidding process. Certain disclosed procedures within this framework include checks to verify compliance with corporate requirements in respect of HSE, employment conditions and social activities.

Baseline eligibility criteria are work/service/product pricing, quality, manufacturing and delivery timeline, availability of the required technical and human resources and relevant expertise.

The full list of requirements, information about open tendering procedures and detailed selection criteria are available in the Tenders section of Gazprom Neft’s corporate website. This is a multi-purpose tool that helps, among other things, to make bidding and procurement processes fully transparent for suppliers, as well as to identify and prevent cases of corruption.

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1 Based on the results of competitive bidding procedures initiated by the Company’s Materials and Equipment Department and Gazprom Neft Procurement’s Materials and Equipment Division.
The Company continuously vets prospective suppliers for compliance with its requirements. The counterparty due diligence includes technical review along with the annual assessment of reliability, solvency and financial standing.

In 2018, our materials and equipment supply chain did not change materially.

In 2018, the Company received bids from over 5,400 prospective suppliers. We entered into contracts with more than 2,100 companies representing 62 Russian regions and 11 neighbouring and remote countries. Local (domestic) suppliers accounted for over 95% of total supplies. In exploration and production regions, the payments totalled ₽120 bn.

For more details, see the Procurement section

Materials and equipment supply chain

SME participation in tenders

In 2018, Gazprom Neft continued championing SME engagement in its procurement processes, with more than 20% of all materials and equipment sourced from these suppliers.
SUSTAINABILITY STRATEGY

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY PRINCIPLES ARE INTEGRATED INTO GAZPROM NEFT’S BUSINESS STRATEGY, DECISION MAKING PROCESSES, AND OPERATIONS.
# CREATING VALUE FOR STAKEHOLDERS

<table>
<thead>
<tr>
<th>Shareholders and investors</th>
<th>Consumers and customers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VALUES</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; Sustainable increase in the Company’s market value</td>
<td>&gt; Stable supply of eco-friendly petroleum products with a high consumer appeal</td>
</tr>
<tr>
<td>&gt; High dividend yield</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>MEASURES</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Ongoing communications with investors, shareholders and analysts to support a fair price of the Company’s securities</td>
<td>&gt; Developing and manufacturing products with enhanced consumer and environmental features</td>
</tr>
<tr>
<td>&gt; Strengthening of the corporate governance and risk management frameworks</td>
<td>&gt; Expanding direct sales to corporate customers through the Company’s own distribution network</td>
</tr>
<tr>
<td>&gt; Equitable dividend policy</td>
<td>&gt; Expanding Gazprom Neft’s retail network and developing the loyalty programme</td>
</tr>
<tr>
<td>&gt; Information transparency in covering the progress of the Company’s development strategy</td>
<td>&gt; Partnerships with leading petroleum product consumers</td>
</tr>
<tr>
<td>&gt; Respect for minority shareholder rights</td>
<td>&gt; Increasing the efficiency of sales channels through business process digitalisation and enhanced communications with customers and counterparties</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>2018 HIGHLIGHTS</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Fair price of stock: price per share as at 29 December 2018 at ₽346.7 [up 43% vs the beginning of the year], with rouble-denominated price reaching an all-time high by the year-end</td>
<td>&gt; All gasolines compliant with Euro-5 emission standards</td>
</tr>
<tr>
<td>&gt; Dividend payout at 35% of Gazprom Neft’s 9M 2018 consolidated IFRS financial result</td>
<td>&gt; Best in Russia sales per filling station at 20.7 tonnes per day</td>
</tr>
<tr>
<td>&gt; Total shareholder return of 53%</td>
<td>&gt; NPS index at 59 points</td>
</tr>
<tr>
<td></td>
<td>&gt; 11.1 million participants of the filling station loyalty programme</td>
</tr>
</tbody>
</table>
The Company believes its sustainable growth is contingent on the well-being of communities across its footprint. In pursuance of its strategic goals, Gazprom Neft seeks to create value for all stakeholders at each stage of its operations.

### Personnel
- A reliable and attractive employer brand
- A wide range of professional growth opportunities
- Competitive remuneration package
- Social support of employees
- Opportunities for self-fulfilment and participation in interesting projects
- Evolving recruitment and retention framework and a distinctive employer value proposition
- Talent pool, competency and training development
- Continuously improving incentive system
- Employee engagement and teamwork
- Robust performance
- Stronger HR effectiveness

### Society and local communities
- Support of local manufacturers and suppliers
- Tax payments to local budgets
- Creating jobs
- Environment
- Improving quality of life in the regions of operation
- Enhancement of the social commitment and entrepreneurship of local communities
- Massively contributing to tax revenues for local budgets
- Facilitating the development of social infrastructure
- Creating highly efficient jobs
- Boosting environmental safety and preserving biodiversity through dedicated programmes
- Strengthening the HSE system
- Improving energy efficiency of operations
- Implementing social initiatives

### Government
- Energy security
- Taxes
- Technological advance of the Russian oil and gas industry
- Stable production growth and efficient oil refining with a broad petroleum product sales network
- Russia’s first major offshore project ongoing at the Prirazlomnaya platform and the comprehensive development of the country’s Arctic Shelf
- Developing a centre of technology excellence to promote substitution of foreign technologies
- Winner of the international Randstad Award 2018 as the most attractive employer in the fuel and energy sector and No. 1 Employer of Choice according to HeadHunter
- Staff turnover at 12.9%, down 2.2 pp y-o-y
- Average monthly salary at ₽ 122,600, up 8% y-o-y
- LTIF down by 21% y-o-y
- Gazprom Neft – one of the largest taxpayers across its footprint
- Russian companies making up 98% of the Company’s suppliers
- Home Towns social investment programme winning two Leaders of Corporate Charity awards
- Water consumption down by 14%

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- Gazprom Neft – one of the largest taxpayers across its footprint
- Russian companies making up 98% of the Company’s suppliers
- Home Towns social investment programme winning two Leaders of Corporate Charity awards
- Water consumption down by 14%
- 18.7 mt of oil exports
- Over ₽ 800 bn of tax payments
- Launch of the Bazhen Technology Centre, a platform to test technologies to develop the Bazhenov Formation
STRATEGY 2030

In 2018, Gazprom Neft’s Board of Directors approved a new Strategy through 2030 for the Company to become a global benchmark in efficiency, safety and technology-driven production.

More than a decade of strong progress has earned Gazprom Neft a spot among major players in the global oil and gas industry. We are firmly on track to deliver on targets set out in our 2025 Strategy as we complete the key projects that are mostly underway.

At the same time, high volatility in energy markets, fiercer and ever changing competition, and transformation in the energy industry at large all create new challenges to oil and gas businesses. Combined with the new scale of business and role of Gazprom Neft in the industry, this brought about the need to revise and update our strategy.

“Our want to be a next generation company that sets the standards for Russian and global players. To deliver on this goal, we need to drastically transform our entire management system: by reviewing its digital model, operations, organisation, and corporate culture. We are aware of our aims, the changes we need to go through, and the tools we need to employ.”

Alexander Dyukov
CEO and Chairman
of the Management Board at Gazprom Neft

Our aim
To evolve into one of the world’s best industrial companies that shapes the industry’s progressive transformation, makes the impossible possible, and provides inspiration in Russia and abroad.

Our mission
To evolve and keep the world evolving. To create and feel proud of the result. We help build resources for the future and make a sustainable difference by providing energy, knowledge, and technologies.
ON TRACK WITH THE 2025 STRATEGY

- 100 mtoe of production
- 40 mt of refining in Russia
- Sales through internal channels: – 100%

NEW LEVEL OF CORPORATE EVOLUTION

- Strong technology competencies
- Extensive portfolio of additional opportunities

Market volatility
Changes in the energy industry
New rules of the game
The new strategy – Strategy 2030

The new Strategy until 2030 succeeds the 2025 Strategy but focuses more on the Company’s market positioning, improving its flexibility when it comes to external changes and transforming key business processes. Gazprom Neft’s targets until 2030:
> build a next generation company;
> set the standards for other industry businesses in terms of efficiency, use of technology, and responsibility to shareholders and the community;
> rely on the Sustainable Development Goals approved by the UN General Assembly on 25 September 2015.

Alexander Dyukov: “We want to become a benchmark in technology and efficiency”

The art of leadership

Gazprom Neft has developed a strategic plan to 2030
LEADING THE MARKET BY ROACE
Effective management of the Company’s asset and project to maximise profit

MAINTAINING A POSITION AMONG THE TOP 10 PUBLIC LIQUID-HYDROCARBON PRODUCERS BY VOLUME
Assuring annual production growth in line with industry

In upstream, the Company continues effective development of its mature reserve base. Growth projects form a number of strategic areas.

Strategic bets

DEVELOPING YAMAL
Pipeline construction from Novoportovskoye to the unified gas-supply system, further development of the Yamal Peninsula resource base via newly created infrastructure.

NADYM-PUR-TAZ AREA
Development and monetisation of worldwide liquid hydrocarbon reserves in a strategically important region for the Company.

SAKHALIN
Creation of a new offshore production hub on the Sakhalin Island shelf.

UNCONVENTIONAL RESOURCES
Development of unconventional reserves at the Bazhenov Formation, Domanic and Paleozoic deposits.

TECHNOLOGICAL DEVELOPMENT
Commercialising residual reserves in existing company assets by using new technologies.

NEW EXPLORATION AREAS
Developing a resource base to ensure production beyond 2025.

MAXIMISING ADDED VALUE FROM EVERY BARREL
Increased efficiency of value chain

In downstream, the Company continues to modernise refining assets, increase operating efficiency, and grow the scale and performance of the sales network.

Strategic areas for long-term development

INCREASING THE CONVERSION RATE AND LIGHT PRODUCT YIELD
Increasing the value of the product slate by increasing technological flexibility and adaptability to market conditions.

IMPROVED EFFICIENCY AND TECHNOLOGICAL PERFORMANCE
Optimising resources, cutting costs, transforming value-chain processes to secure leading positions in existing and new markets.

PETROCHEMICAL INDUSTRY DEVELOPMENT
Business diversification in the new links of hydrocarbons value chain.

FURTHER DEVELOPMENT OF MARKETING AND SALES BUSINESSES
Increasing market leadership in new and existing retail markets.

TRANSFORMATION OF THE COMPANY
Better and faster decision making

To embrace new opportunities and meet new challenges in line with the updated 2030 Strategy, the Company engages in four areas of transformation, all of them crosslinked and relying on one another.

Transformation

OPERATIONAL
Etalon Operations Management System (OMS) to ensure ongoing safety and efficiency of day-to-day operations.

ORGANISATIONAL
Transition to a flexible organisation and a simplified and agile working environment.

CULTURAL
Transition from hierarchical management to facilitative leadership as a new relationship ideology.

DIGITAL
Better and faster decision making by introducing digital technologies.
INTEGRATING UN SUSTAINABLE DEVELOPMENT GOALS INTO THE STRATEGY

Gazprom Neft is strategically guided by sustainable development and corporate social responsibility principles and goals integrated into its business strategy, decision-making processes, and operations. Our sustainable development approaches and commitments hinge on the Sustainable Development Goals (SDGs) adopted by the UN in 2015.1

Key environmental programmes of Gazprom Neft

<table>
<thead>
<tr>
<th>Our focus areas</th>
<th>UN</th>
<th>Our objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCIAL AND ECONOMIC STABILITY, PRODUCTION EFFICIENCY</td>
<td>8</td>
<td>&gt; Generating shareholder value, ROI, maximising value creation per barrel</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>&gt; Improving efficiency of value chain management</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>&gt; Digitalisation and an ongoing focus on innovations</td>
</tr>
<tr>
<td>HEALTH AND SAFETY</td>
<td></td>
<td>&gt; Goal Zero: no harm to people, environment and property in working process</td>
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<tr>
<td></td>
<td></td>
<td>&gt; Lower workplace injury, accident and occupational disease rates, reduced environmental impact</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Safe production</td>
</tr>
<tr>
<td>ENVIRONMENT</td>
<td></td>
<td>&gt; Reducing human impact and preserving the environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Environmental safety of assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Sustainable use, protection and restoration of natural resources, biodiversity conservation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Energy efficiency</td>
</tr>
</tbody>
</table>

1 For the Company’s objectives aligned with sustainable development goals and their achievement, see Appendix 2 hereto Map of material topics.
<table>
<thead>
<tr>
<th>Our focus areas</th>
<th>UN</th>
<th>Our objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERSONNEL DEVELOPMENT AND SUPPORT</td>
<td></td>
<td>&gt; Recruiting highly skilled talent for the Company’s ongoing and future operations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Providing employees with competitive remuneration and benefits</td>
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<td></td>
<td></td>
<td>&gt; Ensuring safe working conditions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Enhancing training and professional development systems</td>
</tr>
<tr>
<td>CONTRIBUTING TO THE DEVELOPMENT OF LOCAL COMMUNITIES</td>
<td></td>
<td>&gt; Supporting social infrastructure across our footprint</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Nurturing local talent and promoting social commitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Import substitution, stronger ties with local suppliers and technology partnerships</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Ongoing dialogue with the stakeholders to achieve sustainability goals of local communities and society as a whole</td>
</tr>
<tr>
<td>CORPORATE GOVERNANCE</td>
<td></td>
<td>&gt; Developing a corporate governance framework compliant with best global practices to boost the Company’s efficiency and competitiveness</td>
</tr>
<tr>
<td>RESPECT FOR HUMAN RIGHTS AND COMBATING CORRUPTION</td>
<td></td>
<td>&gt; No violations of labour or human rights</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Anti-corruption initiatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; Efficient management of risks related to corruption and violation of human rights</td>
</tr>
</tbody>
</table>
SUSTAINABILITY MANAGEMENT AND STAKEHOLDER ENGAGEMENT

Our corporate governance standards and tools enable us to embed sustainable development principles into every process, from strategic planning to everyday decision making.
CORPORATE GOVERNANCE

Gazprom Neft’s corporate governance¹ is underpinned by sustainability and the mission to enhance the Company’s shareholder value in the long term. To achieve that, the Company works to build responsible and trustful relationships with key stakeholders.

Gazprom Neft’s corporate governance framework encompasses all the key elements typical of public companies with established governance structures and is aligned with the applicable Russian statutory requirements, the Company’s Charter and by-laws. The framework also hinges on global best practices and techniques.

The governance rules and principles are set out in the Corporate Code of Conduct and the Corporate Governance Code. Gazprom Neft’s corporate governance framework is designed to ensure the highest level of internal and external controls. The Corporate Centre of the Gazprom Neft Group is PJSC Gazprom Neft, which ensures effective control over all processes.

As of 31 December 2018, Gazprom Neft comprised 134 Russian and foreign legal entities. Regardless of the authorised capital structure, PJSC Gazprom Neft is the core Company with respect to the Gazprom Neft Group’s entities. One of the means used to ensure effective corporate governance and monitoring of subsidiary operations is the review of subsidiaries’ key operational matters by the PJSC Gazprom Neft governance bodies.

Focus on the protection of shareholder rights includes efforts to:
> improve disclosure transparency;
> update the shareholder register and upgrade the Online Shareholder Account.

Focus on greater efficiency of the Company’s governance bodies includes efforts to:
> improve operating procedures;
> enhance controls over corporate procedures.

Focus on information disclosures includes efforts to:
> improve the procedure for information transfer and approval all the way through from any given event actually taking place to its disclosure in the securities market;
> update the Company’s by-laws and processes to align them with the latest inside information statutory requirements;

> launch the Single Disclosure Window interface for mandatory notices and corporate news.

Focus on corporate governance improvements and adoption of best practices includes efforts to:
> enhance corporate governance framework in subsidiaries;
> update Group-wide corporate governance by-laws and procedures.

¹ For the list of material companies within Gazprom Neft Group, see Appendix 4 in the Company’s annual report.

¹ For more details on corporate governance, activities of supreme governance bodies, their composition and remuneration, as well as prevention of conflicts of interest, see the Corporate Governance section in the Company’s annual report for 2018.

¹ For the structure of the Gazprom Neft Group and key changes therein, see the corporate governance section in the Company’s annual report for 2018.
Governance efficiency

The Company is committed to bettering its corporate governance framework with a focus on greater efficiency. The Board of Directors reviews performance in this area on an annual basis.

2018 HIGHLIGHTS:
> the Extraordinary General Meeting of Shareholders approved amendments to the Company’s Charter to reflect changes in the Federal Law On Joint-Stock Companies pertaining to major and interested-party transactions;
> the Extraordinary General Meeting of Shareholders approved new versions of the Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Management Board, and Regulation on the Chief Executive Officer. The updated documents take into account the recommendations of the Corporate Governance Code and best practices followed in Russia;
> the Board of Directors approved amendments to increase transaction thresholds under by-laws governing the transaction handling procedure and interaction with investee entities;
> the Human Resources and Compensation Committee approved new criteria to assess performance of the Board of Directors and deemed it advisable to engage a qualified independent service provider (consultant) for the Board’s review at least once in three years;
> the Company enabled its shareholders to use the Online Shareholder Account and the e-voting system to participate in general meetings of shareholders;
> the Company started automating its corporate governance processes.

The key targets, goals and principles underpinning Gazprom Neft’s corporate governance framework include preserving and growing the Company’s asset base, increasing its market value, maintaining financial stability and profitability of the Company, and respecting the rights and interests of its shareholders, investors and other stakeholders. A highly professional management team and an effective system of corporate governance and control are a prerequisite for the successful management of a complex multi-tiered vertically integrated oil company such as Gazprom Neft with domestic and foreign upstream and downstream assets. The Company currently has a well-defined organisational structure encouraging seamless interaction between its governance bodies and clear distribution of governance and control roles to guarantee progressive growth of the shareholder value in the long term.

“2018 was the first year Gazprom Neft’s shareholders could use new e-voting solutions. The implementation of remote voting systems confirms the Company’s commitment to introducing advanced digital technologies in both production processes and business communications, as the new solutions make corporate governance more transparent and accessible, while also facilitating the exercise of shareholder rights.”

Elena Ilyukhina
Deputy CEO for Legal and Corporate Affairs
Gazprom Neft’s governance and control bodies

**AUDIT COMMITTEE**
The Audit Committee exercises oversight over the Company’s financial and business operations.

**BOARD OF DIRECTORS**
The Board of Directors is responsible for the general management of the Company and its strategy, policies and core operating principles. The Board is accountable to the General Meeting of Shareholders and must act in the interest of all shareholders.

**EXECUTIVE BODIES**
Executive bodies manage the Company’s ongoing operations and are held accountable to the General Meeting of Shareholders and the Board of Directors.

**GENERAL MEETING OF SHAREHOLDERS**
This is the supreme governance body responsible for dealing with the most significant aspects of the Company’s activities.

**SECRETARY OF THE BOARD OF DIRECTORS**
The Secretary ensures effective communication with shareholders, makes necessary arrangements to protect rights and interests, and provides operating support to boost the efficiency of the Board of Directors.

**HUMAN RESOURCES AND COMPENSATION COMMITTEE**
The Human Resources and Compensation Committee evaluates the effectiveness of the Company’s HR policy and remuneration system, determines the criteria for selecting nominees to the Board of Directors, and assesses performance of the Board of Directors.

**MANAGEMENT BOARD**

**CEO**

**EXTERNAL AUDITOR**
External auditor is a professional audit organisation approved by the General Meeting of Shareholders based on recommendations by the Board of Directors issued following an assessment by the Audit Committee. External auditor is charged with conducting an independent review of the Company’s financial and business operations.

**INTERNAL AUDIT DEPARTMENT**
As part of the Internal Audit and Risk Management Directorate, the Internal Audit Department is responsible for offering the Board of Directors (through the Audit Committee) and the Company’s management (the CEO and the Management Board) independent, unbiased, reasonable and substantiated guarantees and consultations aiming to improve the Company’s performance and achieve the Company’s goals by advocating a systematic and consistent approach to assessing and enhancing the efficiency of corporate governance, risk management and internal control processes.

**AUDIT COMMISSION**
The Audit Commission is an elected body that exercises control over the financial and business operations of the Company.

**ELECTION, SETUP**

**REPORTING**

**ADMINISTRATIVE REPORTING**

**FUNCTIONAL REPORTING**

**APPOINTMENT BY RESOLUTION OF THE BOARD OF DIRECTORS**
Activities of the Board of Directors

MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme governance body responsible for dealing with the most significant aspects of the Company’s activities.

The Board of Directors is responsible for the Company’s strategic management, defining key principles and approaches of risk management and internal controls, and exercising control over Gazprom Neft’s executive bodies. The Company’s executive bodies – the Management Board and the CEO – are held accountable to the General Meeting of Shareholders and the Board of Directors. Out of 13 Board members, ten are non-executive directors (representing the majority shareholder), two are independent directors and one is the Company’s executive director. The independence criteria used by Gazprom Neft are based on recommendations of the Corporate Governance Code of the Central Bank of the Russian Federation (Bank of Russia).

All directors have a balanced set of qualifications required for their roles. They possess skills in strategic management, corporate governance, corporate finance and risk management and have industry experience and expertise.

The directors perform their duties in close collaboration with the Company’s management team, business units, registrar and auditors. The current composition of the Board of Directors ensures sufficient independence from the Company’s management and enables effective control over its performance.

The Company’s majority shareholder is PJSC Gazprom, which owns 95.68% of its capital. The remaining ordinary shares are held by minority shareholders represented by both individuals and legal entities, which helps strike the right balance in distribution of powers between those involved in corporate relations. Given the structure of the Company’s share capital, the vast majority of Gazprom Neft’s directors are elected upon the recommendation of PJSC Gazprom, the owner of the controlling stake.

Directors are elected in a transparent manner providing shareholders with sufficient information on candidates to get a clear idea of their personal and professional skills. Shareholders can use a range of communication channels, including hotline and email, to communicate their opinions and questions to the Board of Directors. On top of that, they have an opportunity to put questions to the Company’s executive bodies and directors before and during the Annual General Meeting.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller</td>
<td>56</td>
</tr>
<tr>
<td>Valery Golubev</td>
<td>66</td>
</tr>
<tr>
<td>Andrey Kruglov</td>
<td>50</td>
</tr>
<tr>
<td>Kirill Seleznev</td>
<td>44</td>
</tr>
<tr>
<td>Vsevolod Cherepanov</td>
<td>52</td>
</tr>
<tr>
<td>Igor Fedorov</td>
<td>53</td>
</tr>
<tr>
<td>Elena Mikhailova</td>
<td>41</td>
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<tr>
<td>Alexander Dyukov</td>
<td>51</td>
</tr>
<tr>
<td>Andrey Dmitriev</td>
<td>44</td>
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<tr>
<td>Vladimir Alisov</td>
<td>58</td>
</tr>
<tr>
<td>Mikhail Sereda</td>
<td>48</td>
</tr>
<tr>
<td>Valery Serdyukov</td>
<td>73</td>
</tr>
<tr>
<td>Sergey Fursenko</td>
<td>64</td>
</tr>
</tbody>
</table>
In 2018, the Board of Directors reviewed the following sustainability-related matters:
> the Company’s Development Strategy until 2030 and advancing certain lines of business;
> international expansion plans;
> Gazprom Neft’s programme for the Russian offshore projects;
> performance against the investment programme in 2018;
> further innovations at the Company;
> the Company’s efforts to embrace domestic products and solutions and increase their share in its purchases;
> KPIs and their impact on the Company’s efficiency;
> assessment of performance of Gazprom Neft’s external auditor for 2017;
> results of assessing and reviewing the main risks after 2017;
> implementation of key environmental protection initiatives in 2017 and plans for 2018;
> programme for APG utilisation and its improved use in 2018 and plans for 2019–2021;
> changes in APG utilisation levels in the Orenburg Region in 2015–2018.

Assessment of the Board of Directors’ performance

The Board’s annual performance assessment is held in the form of survey (polling). The questionnaire contains around 30 questions covering the main areas of activity. The results reflect the status quo of the key processes, such as strategy, business practices, efficiency management, support of the Board and its committees, and personal contributions of directors, including the Chairman and the Secretary.

In 2018, the Human Resources and Compensation Committee approved new criteria to assess performance of the Board of Directors and deemed it advisable to engage an independent service provider for the Board’s review at least once in three years.

The reporting year’s assessment revealed improvements in setting strategic priorities and interactions with top executives, as well as better performance and a more balanced composition of the Board’s committees. At the same time, more efforts are needed to enhance the quality and timeliness of information provided to the Board and develop channels for improving communication with the management team and other stakeholders.

Measures to prevent conflicts of interest

The Company maintains the balance between shareholders’ and managers’ interests. Its majority shareholder has enough votes to appoint the Board of Directors and resolve on a variety of matters falling within the remit of the General Meeting of Shareholders. Nonetheless, the Company implements a range of measures to decrease risks related to governance where most of the share capital is held by a single shareholder.

In resolving conflicts of interest, we rely on our by-laws – the Corporate Code of Conduct and the Corporate Governance Code.
Gazprom Neft has established the Corporate Culture and Ethics Working Committee to ensure compliance with the Company’s Code. This committee is made up of Management Board members.

**The Corporate Governance Code requires the directors to:**
- refrain from any actions that may result in a conflict of interest;
- abstain from voting on matters where they have a personal interest;
- refrain from disclosing or using for personal or third-party gain any confidential and/or insider information about the Company.

In 2018, an Extraordinary General Meeting of Shareholders approved a new version of the Regulation on the Board of Directors of Gazprom Neft. Now, it has a section on identification and prevention of conflicts of interest on the Board of Directors specifying procedures to avoid the same, including:
- mandatory notification of such conflicts;
- the inclusion of information on a conflict in the materials provided at a meeting;
- the right to suggest that the director involved in the conflict not be present at the discussion;
- prohibited use of any direct or indirect benefits offered by persons promoting their interests in the decision making.

Information on directors’ involvement with other companies is verified on a quarterly basis. In 2018, members of Gazprom Neft’s Board of Directors and Management Board had no conflicts of interest.

**Remuneration of the Board of Directors and the Management Board**

The Company has put in place a remuneration scheme for the Management Board and senior management that is used to calculate bonuses for meeting short-term targets and a long-term incentive programme that rewards the Company’s managers for increased stock prices in each of its three-year periods. 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.

In 2018, the General Meeting of Shareholders resolved to allocate and pay 0.005% of EBITDA to the non-executive directors.

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.

The members of the Management Board are entitled to the base remuneration as specified in their respective employment contracts, as well as annual bonuses and LTIP payments.
SUSTAINABLE DEVELOPMENT REPORT 2018
GAZPROM NEFT

APPROACHES TO SUSTAINABILITY MANAGEMENT

Sustainability management

KEY DOCUMENTS:

> Corporate Code of Conduct;
> Corporate Governance Code;
> Policies and other by-laws for each of the priority sustainable development areas.

KEY PRINCIPLES:

> Planning and implementing the Company’s strategy with due regard to stakeholders’ interests as well as the principles and priorities of present and future generations;
> Creating value for stakeholders at each stage of the Company’s operations;
> Balancing economic, environmental and social management.

TOP EXECUTIVE RESPONSIBLE FOR THE SUSTAINABILITY MANAGEMENT:

Alexander Dyukov, Chairman of the Management Board and CEO

KEY STAKEHOLDERS:

> shareholders, investors;
> the Company’s employees;
> federal and regional authorities in Russia;
> local communities;
> contractors, business partners;
> the industry community in Russia and globally;
> non-profit and public organisations.

1 Information on key by-laws for each of the areas is available in the corresponding sections of this report.
Sustainability management structure

**BOARD OF DIRECTORS**

**HUMAN RESOURCES AND COMPENSATION COMMITTEE AND AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

- Overseeing the implementation of the sustainability strategy
- Approval of sustainability policies and programmes

**CEO AND MANAGEMENT BOARD OPERATING MANAGEMENT SYSTEM COMMITTEE OF THE MANAGEMENT BOARD**

- Developing the sustainability strategy
- Managing the implementation of sustainability strategy and programmes
- Reviewing performance against the strategy

**RELEVANT DEPARTMENTS IN THE CORPORATE CENTRE AND DIVISIONS**

Strategic planning, setting goals, overseeing and managing relevant activities

**RELEVANT DIVISIONAL DEPARTMENTS**

- Determining sustainability priorities in their respective fields
- Overseeing relevant sustainable development activities of subsidiaries

**RELEVANT SUBSIDIARY DEPARTMENTS**

Implementing sustainability programmes in their respective fields

The Company’s management systems encompass all activities in this field and comply with international standards. Sustainability indicators are included in manager and employee KPIs.
The Company’s Strategy 2030 views the development of the Etalon Operations Management System (OMS) as a key element of the Company’s transformation. Etalon’s roll-out kicked off in 2016. The system prototype is now being pilot tested at a number of our assets and is ready to be scaled across the Company.

The OMS is a structured set of interlinked practices, procedures and processes used by managers and employees at each level of the Company as part of its operations. Compliance with the OMS requirements is a must at all levels and across all units, from offices and laboratories to drilling rigs and factories.

The key objective of the roll-out is to ensure continuous improvement of the Company’s operational efficiency. This will be achieved by introducing universally standardised practices and having all employees embrace the culture of continuous improvement based on:

1. Facilitative leadership is at the core of the first block, i.e. operational culture. It is a style of leadership effective in creating a supportive environment for employees to work towards the Company’s strategic goals.
2. The second block covers operational reliability and is based on uniform asset reliability criteria and requirements, uniform safety management processes and measures to minimise the number of faults and failures.
3. The third block is built around operational efficiency with a focus on the operating assets’ ability to know and see their potential, leverage the tools necessary to cut all and any losses, and support a culture of continuous improvement.

The system’s framework is described in the OMS Code, which brings together Company-wide requirements to equipment safety, reliability and integrity, process flow efficiency and staff expertise.

The OMS comprises 12 functional elements grouped into three major blocks: operational culture, operational reliability and safety, and operational efficiency.

Operating efficiency: pilot case at the Omsk Lubricants Plant

“The most difficult part is to learn to speak a shared language”
**Etalon OMS milestones**

### 2018 RESULTS
- Maturity assessment criteria developed and adopted
- Assets diagnostics completed
- Development targets and potential defined by priority area
- Training in regular management practices launched across the Group
- Pilot projects completed
- Efforts initiated to align the Company’s internal documents with the OMS Code

### 2019–2020 DELIVERABLES
- Focus on priority areas:
  - leadership and culture;
  - operating efficiency management;
  - contractors and suppliers management;
  - equipment reliability and integrity management.
- Roll out regular management practices across all of the Company’s assets
- Embed an operational reliability management model based on the equipment criticality analysis for production divisions
- Maximise the scope of the development potential assessment to cover all of the Company’s assets

### 2020–2030 DELIVERABLES
- Ensure the highest level of employee involvement in the transformation
- Roll out the results of pilot projects across the Group and achieve systemic and active OMS maturity levels
- Tighten the responsibility of the management for ensuring safe and reliable operations of the Company and its contractors and suppliers
- Maintain and promote the culture of continuous improvement

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**Etalon OMS structure**

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<td>4. Organisational development and competency management</td>
<td>5. Operational risks management</td>
<td>6. Project management</td>
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**Performance management and continuous improvement**
A key principle of Gazprom Neft’s corporate governance is information transparency. Gazprom Neft accurately and promptly informs its stakeholders about significant events and aspects of its operations.

Accountability and financial transparency (with adjustments made for the Company’s concerns about the protection of trade secrets and other confidential data) play a pivotal role in Gazprom Neft’s corporate governance system.

The Company’s website offers access to the latest news, financial and operating results, reports and other useful information, while also making available the documents on Gazprom Neft’s governance and control bodies, including the Charter, Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Management Board, Regulation on the Chief Executive Officer, and Regulation on the Audit Commission.

To ensure equitable access to information for all stakeholders, the materials at Gazprom Neft’s official website are available in both Russian and English.

The main document governing information disclosure and exchange between the Company and its stakeholders is the Information Policy Regulation. Its key principles include impartiality, reliability, completeness and comparability of information, neutrality, regularity, consistency and timeliness of its disclosure, along with equal, unrestricted and easy accessibility of data for all stakeholders.

The Company is a regular winner of Russian and international disclosure contests. The Russian XXI Annual Report Competition organised by the Moscow Exchange and the RCB Media Group awarded Gazprom Neft first prize in four nominations. Gazprom Neft’s annual report for 2017 received the highest ranking among ₽ 200+ bn capitalisation companies and among oil and gas companies. It was also recognised for its communication effectiveness. Additionally, the Company was named best by information transparency on the corporate website and second by corporate governance disclosures.
The Company prohibits any discrimination based on ethnicity, gender, origin, age or other grounds, recognises the right of its employees to establish public associations and organisations to protect their rights and interests, and guarantees respect for the rights of indigenous minorities in the regions where it operates.

The Company complies with the human rights principles set out in:

- the UN Global Compact in the areas of human rights, labour, anti-corruption and environment;
- the Universal Declaration of Human Rights;
- the International Labour Organisation Declaration on Fundamental Principles and Rights at Work;

The Company defined human rights principles in the following fundamental by-laws:

- Corporate Code of Conduct;
- Anti-Fraud and Anti-Corruption Policy;
- Health, Safety, Environment and Civil Defence Policy;
- Regional Policy Concept;
- Charity Policy;
- Information Policy Regulation.

To implement these principles, the Company takes the following steps:

- assumes obligations to observe human rights and includes relevant provisions in its by-laws;
- assesses risks associated with observance of human rights and develops preventive measures;
- maintains dialogue with the stakeholders on human rights issues;
- develops feedback channels for the stakeholders to express relevant opinions or grievances;
- monitors observance of human rights by its employees and contractors.

The Company has:

- the Corporate Culture and Ethics Working Committee comprised of members of the Management Board and chaired by the Company’s CEO;
- the hotline to report corruption, fraud, and violations of laws and Corporate Code of Conduct;
- an office for the investigation of reports received through the hotline of the Internal Audit Department (part of the Internal Audit and Risk Management Directorate).

The hotline is open for anyone to report violations, including anonymously. Every report is processed on a case-by-case basis, with comprehensive and unbiased investigations launched to take effective decisions and provide feedback.

To investigate every message, the Company engages experts from various units, including HR, legal, health and safety. The Company encourages its employees and partners to use the hotline and makes sure they know about various communication channels. At the moment, these channels include an online form on the corporate website, email, phone, and suggestion boxes. The Board of Directors reviews the results of hotline operation, including the statistics on messages received and processed, and violations subsequently identified, on an ongoing basis.
Gazprom Neft has zero tolerance for potential corruption and fraud risks. With this in mind, the Company joined the Anti-Corruption Charter of the Russian Business adopted by the RSPP.

The Company’s framework regulation in this area is the Anti-Fraud and Anti-Corruption Policy, which contains the main requirements to business processes in order to mitigate corruption risks, and sets forth anti-corruption rules and standards for employees. Knowing the policy and complying with its key principles are mandatory for all Gazprom Neft’s employees.

The Company runs an anti-fraud and anti-corruption training programme compulsory for all employees, both new and old. To control corruption risks when cooperating with external counterparties, Gazprom Neft’s CEO approved standard anti-corruption clauses to be included in agreements with third parties (both Russian and foreign ones).

At Gazprom Neft, Deputy CEO for Security is in charge of anti-corruption activities.

The Company’s anti-corruption measures at all internal control levels include:

> reviewing and updating fraud and corruption risks classified as key corporate risks;
> applying the due diligence principle to potential counterparties, and including relevant obligations (anti-corruption clauses) in agreements;
> checking new and old employees for affiliation with third-party businesses and for any conflict of interest;
> running a hotline to combat fraud, corruption and other violations of the Corporate Code of Conduct. The line allows any violation to be anonymously reported at the Corporate Centre or subsidiaries;
> carrying out internal investigations of identified cases of fraud and taking action against those at fault.

Following the investigation of hotline reports, no cases of corruption were confirmed in 2018.¹

¹ The applicable legislation puts law enforcement authorities in charge of verifying the cases of corruption. This means they must be notified in the event of suspected corruption. The Company’s review of hotline reports identified no need to involve law enforcement authorities in 2018.
INTERNAL CONTROL

To improve the efficiency of internal controls and corporate governance, Gazprom Neft developed an Internal Control Policy, the principal document specifying the aims, objectives, components, organisational and functional principles of internal controls. The Policy is published as part of other Company’s by-laws.

It was pre-approved by the Audit Committee of the Board of Directors and approved by the Board of Directors in 2017. The Company’s executive bodies, senior management, heads of business units and employees are actively engaged in establishing and maintaining internal controls, which helps the Company achieve its goals in the most efficient manner.

THE INTERNAL CONTROL FRAMEWORK SEEKS TO:

> mitigate risks that may prevent the Company from achieving its goals;
> develop, implement, duly execute, monitor and improve the control procedures at any business or management level;
> inform the relevant governance bodies of control weaknesses and suggest remedial actions;
> ensure business continuity, operational efficiency, sustainability and growth potential, including timely adaptation to internal and external changes;
> provide a consistent and systematic methodological approach as well as quality information and analytical support for managerial decision making;
> facilitate due allocation of responsibilities, powers and functions among internal control units, with no overlapping;
> timely settle conflicts of interest emerging in the course of business.

INTERNAL CONTROL FUNCTIONS

The composition of the Company’s internal control units and the allocation of functions aimed at establishing and maintaining effective internal controls within the Company are as follows.

The Board of Directors establishes a proper control environment, fosters the internal control culture and maintains high ethical standards at all business levels as part of the coordination and supervision of the Company’s management. It also determines the principles and approaches to the organisation and functioning of the Company’s internal control system and carries out a top level analysis and assessment of internal control effectiveness, among other things, through annual reviews and improvement recommendations where necessary.

The relevant information is provided to shareholders in the Company’s annual report and the Internal Audit and Risk Management Directorate’s performance report.
The Audit Committee’s role is to provide recommendations to the Board of Directors on the establishment, maintenance, assessment and improvement of the Company’s internal controls, risk management and corporate governance frameworks; analyse the Company’s statements and external audit results to ensure their compliance with the Russian laws, International Financial Reporting Standards, Russian Accounting Standards and other regulations; and review the identified or potential misconduct of the Company’s employees.

Executive bodies and senior management are tasked with responsibilities to facilitate the development and ensure the effectiveness of internal controls; establish a proper control environment, foster the internal control culture and maintain high ethical standards at all business levels; allocate powers and duties among and assign responsibilities to the heads of business units with respect to effective development, implementation, maintenance, monitoring and improvement of the Company’s internal controls; and regularly assess staff performance and training as regards internal controls taking into account changes in the Company’s internal and external operating environment.

Heads of units and employees of the Company act so as to develop, document, implement, execute, monitor (carry out self-assessment) and improve control procedures within their competence and remit, as well as timely inform their immediate superiors of instances where control procedures become impossible to execute and/or need to be amended due to changes in the Company’s internal and external operating environment.

The Company’s Audit Commission ensures the accuracy of financial statements and other information on the Company’s financial and business operations and financial position.
Gazprom Neft has a Risk Management Policy in place, which sets out the objectives and principles of risk management to enhance stability of the Company’s operations in the short and long term.

Our risk management strategy seeks to improve managerial decision making by analysing the related risks, and to maximise the effectiveness of the management initiatives when these decisions are brought to life.

To this end, the Company has a unified approach to the risk management process. Along with uniform analysis and risk management tools, it forms an integrated risk management framework (IRMF).

As part of this framework, risk management tools are integrated into all key corporate processes. Responsibility for risk management and reporting is determined by the linear and functional management framework. For each risk, an owner responsible for managing it is assigned. Each function and key business process has a risk coordinator among the management staff. They are responsible for promoting and supporting the application of corporate risk management principles. The timing and objectives for risk analysis depend on the particular circumstances and requirements of each business process with respect to which risk management is implemented.

This approach helps define areas of responsibility for risk management and monitor risks at all management levels across the Company. It also allows Gazprom Neft to develop target plans to respond to material risks for each subsidiary and the Company at large.

**IRMF process at the Gazprom Neft Group**

- **Identification (Review) of Risks**
  - At least once a year

- **Qualitative and Quantitative Risk Assessment**
  - At least once a year

- **Development of Mitigants**
  - At least once a year

- **Monitoring of Mitigants**
  - At least once a quarter
Distribution of powers and responsibilities in risk management

**KEY RISKS**
Key decisions and assessment of performance results are made at the Board of Directors meetings. Divisions are responsible for the immediate management of this type of risks.

**DIVISION RISKS**
Risk monitoring and management at Division level

**SUBSIDIARY RISKS**
Risk monitoring and management at Subsidiary level
### Social and environmental risk management

**Risk description**

<table>
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<th>HR risks</th>
<th>HSE risks</th>
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<td>Highly qualified personnel is key to effective operation of the Company’s business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company’s success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market. Failure to attract qualified employees and/or retain the existing talent pool could have an adverse effect on the Company’s reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.</td>
<td>Risks associated with occupational industrial, fire and environmental safety legislation that may entail a temporary shutdown of facilities and licence revocation, along with the risks of accidents (fatalities and workplace injuries, fires/explosions/accidents, accidents with environmental consequences of nationwide scale).</td>
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**Risk mitigants**

| The Company offers a safe workplace environment, competitive salaries, and professional training programmes to its personnel. We work continuously to improve our recruitment procedures, limit staff turnover, and provide self-development opportunities for our employees. | In the field of industrial safety, the Company strives to achieve the strategic Goal Zero: no harm to people, environment and property in working process. The main focus areas reflected in the corporate HSE Policy Statement include:  
> safe production based on risk analysis, mitigation and management;  
> reduction of workplace injury and occupational disease rates, accident hazards and environmental impact;  
> consistent implementation of best global HSE practices.  
The risk-based approach and the principle of integrating HSE risks into all key business processes of the Company underlie the occupational risk management ideology. As part of the implementation of a risk-based approach, the Company focuses on the following parameters.  
> **Fundamental barrier**  
   Setting obstacles for priority risks across the Company’s assets and ensuring their reliability.  
> **Competency barrier**  
   Granting access to processes to competent employees only  
> **Digital barrier management**  
   Eliminating the human factor where possible.  
The Company is fully aware of its responsibility to preserve the environment. We keep monitoring our activities for compliance with relevant environmental requirements and run environmental protection programmes. |

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[1] Other key risks are described in the Internal Control and Risk Management section of the Company’s Annual Report for 2018.
Gazprom Neft’s stakeholder engagement framework focuses on sustainable development goals and aims to balance the interests of all stakeholders.

The Company has identified key stakeholder groups whose interests are most closely linked to those of Gazprom Neft and who are capable of having the most considerable impact on the Company’s ability to achieve its strategic goals. The Company also honours commitments arising out of laws and regulations.

**KEY STAKEHOLDERS:**
- shareholders and investors
- employees
- consumers
- government agencies in Russia and the Company’s regions of operations
- suppliers and partners
- local communities across Gazprom Neft’s geography
- industry community in Russia and globally
- non-profit and non-governmental organisations

Key principles of stakeholder engagement are set forth by the Corporate Code of Conduct, Corporate Governance Code, and the Information Policy Regulation.

**Shareholders and investors**

**Ways to engage**
- general meetings of shareholders
- corporate reports
- meetings with the Company’s management
- conference calls for investors
- quarterly Analyst Databooks and monthly datafeeds
- participation in investment and broker conferences
- site visits for investors to take a look at the Company’s production and upstream facilities

**Key matters**
- strategy implementation
- financial strength
- corporate governance
- shareholder rights protection
- production efficiency and industrial safety enhancement
- product quality
- the Company’s involvement in efforts against climate change

**PRINCIPLES OF STAKEHOLDER ENGAGEMENT:**
- respect for everyone’s interests
- constructive cooperation
- transparency of the Company’s operations
- ongoing interaction
- fulfilment of commitments

Gazprom Neft is always in touch with stakeholders, viewing it as a key driver of its sustainable development strategy. Matters to be discussed are defined based on the Company’s ongoing analysis of internal and external social environments, with attention paid to Gazprom Neft’s strategic agenda, stakeholders’ priorities, and interests of society at large.
Highlights of 2018

> The Company held the Annual General Meeting of Shareholders and an Extraordinary General Meeting of Shareholders:
  - In 2018, at its Extraordinary General Meeting of Shareholders (held on 14 December 2018), the Company resolved to pay ₽ 104.55 bn (₽ 22.05 per ordinary share) in interim dividends for 9M 2018, approved amendments to the Charter, and approved new versions of the Company’s internal documents: Regulation on the Board of Directors, Regulation on the General Meeting of Shareholders, Regulation on the Chief Executive Officer, and Regulation on the Management Board.

> The Company held its annual Investor Day attended by senior management.

> A total of 159 meetings with investors were held in 2018.

> More than 300 people joined the Company’s quarterly conference calls.

Employees and trade unions

Ways to engage

> internal communications
> communication sessions involving managers and employees
> meetings between teams and managers at Gazprom Neft’s facilities
> joint committees for health protection
> meetings attended by trade union representatives
> analysis of staff morale at the Company’s facilities
> corporate activities: forums, conferences
> cultural and sports events

Highlights of 2018

> An annual study of the Company’s staff morale covered 27,000 employees. The resulting reports for each site will serve as a platform to further enhance corporate culture and improve staff morale in teams.

> To support corporate culture transformation, the Company launched a communications campaign promoting its updated model of corporate values. A special focus was on communications between Gazprom Neft’s senior management and rank-and-file employees. A strategic session of the Company’s management, attended by CEO Alexander Dyukov, was broadcast live, and there was also an extended meeting of the Management Board involving 150 senior executives of Gazprom Neft.

> As per the work plan, the Company remained part of working groups of the Russian Trilateral Commission on the Regulation of Social and Labour Relations under the Russian Government, participated in consultation meetings of the Russian Oil, Gas and Construction Workers’ Union, and took part in activities of the Industrial Commission on Social and Labour Relations.

> In 2018, the Company also worked towards building relations between the Gazpromneft-Noyabrsk trade union and Gazprom Neft based on the principles of social partnership.

> Due to changes in Gazpromneft-NNG’s production structure, the trade union went through a reorganisation in order to align the trade union structure accordingly, which resulted in a merger of the two primary trade unions. The new primary trade union of Gazpromneft-NNG now represents the interests of all employees of Gazpromneft-NNG, including its branch.
Federal and regional government agencies and municipal authorities

Ways to engage

> agreements on social and economic partnership
> joint working groups, roundtables, and meetings
> corporate reports
> participation in commissions and conferences

Key matters

> legislative changes and fostering growth of the oil and gas industry
> the Company’s strategic development
> resource base growth and development of fields
> compliance with Russian laws and regulations
> the Company’s role in helping its regions of operation
> industrial safety and response to incidents
> the Company’s impact on the environment
> product quality and products with enhanced environmental features

Highlights of 2018

> The Company signed social and economic agreements with governments across 26 Russian regions and 20 municipalities.
> Gazprom Neft, the Ministry of Industry and Trade and the Government of the Khanty-Mansi Autonomous Area signed a memorandum of understanding to address matters related to the Bazhenov Formation development. The partners will join efforts to sign special investment contracts to implement a national project to set up a centre for developing the Bazhenov Formation based on domestically produced advanced equipment and technology.
> Alexander Dyukov, CEO of Gazprom Neft, and Aleksandar Vucic, President of the Republic of Serbia, held a meeting to review a report on the 2017 performance of the Serbia-based NIS.
> The Company signed an agreement with the Government of the Yamal-Nenets Autonomous Area to expand its programme aimed at preserving aquatic biological resources and their habitat in the Area.
> The Company was involved in the Ministry of Energy’s Inter-Agency Coordination Council responsible for implementing the Energy Efficiency and Energy Sector Development programme, and also participated in the working group for energy management and energy audit of the section for legislative regulation of energy efficiency and energy saving of the State Duma’s Committee on Energy.
> The Tyumen-based Gazpromneft – Yamal hosted Gazprom Neft’s 8th Environmental Conference, bringing together experts of the Company, Gazprom, Tomsk State University, TomskNIPIneft, Federal Agency for Technical Regulation and Metrology (Rosstandart), Office of the Federal Service for Supervision of Natural Resources for the Tyumen Region and the Yamal-Nenets Autonomous Area, etc.
> As part of its regional policy, the Company took part in integrated meetings chaired by heads of Russian regions and focused on business development and social cooperation in key regions of operation and also in the Stavropol and Krasnodar areas, Rostov and Kurgan regions, etc.
> Omsk Refinery hosted an offsite meeting of the Federal Environmental, Industrial and Nuclear Supervision Service (Rostekhnadzor), etc.

Suppliers, contractors, partners

Ways to engage

> competitive tenders and procedures
> contracts and agreements
> the Company’s assessment of its contractors
> business meetings and forums of the Company
> external conferences and exhibitions
> corporate website, including dedicated section at http://zakupki.gazprom-neft.com/

Key matters

> honouring mutual obligations
> import substitution and support for local producers
> transparency, openness, competitive procedure and bidding to select contractors
> business ethics and anti-corruption
**Highlights of 2018**

- Four import substitution projects received funding from the Fund for the Promotion of R&D Startups.
- Strategic partnership agreements were signed with Roscosmos, Severstal, Geoenergomash and Becema, Neftegazavtomatika.
- An agreement was signed with Lukoil and Tatneft for the cooperation in developing oilfield services based on import-substituting equipment and technologies with a focus on high-tech drilling services.
- Joint working groups with Gazprombank and HMS Group continued up and running.

- Two seminars on the Quick Access programme were held with Russian producers, foreign licensors and EPC contractors in order to have Russian producers approved on the vendor list of foreign companies.
- Tyumen hosted an extended HSE forum attended by contractors involved in the development of the Novoportovskoye and Vostochno-Messoyakhskoye Arctic fields.
- St. Petersburg hosted the 4th extended meeting of Gazprom Neft and its key operational contractors, attended by the management of the Company and its subsidiaries.

**Consumers**

**Ways to engage**

- contracts
- feedback and customer service systems
- complaint management system
- the Company’s assessment by consumers
- mass media
- external corporate communications
- Gazprom Neft’s loyalty programme
- business meetings, including those held off-site
- conferences and forums
- corporate reports

**Key matters**

- product quality
- improved customer experience
- transparent pricing
- ethical business practices

**Highlights of 2018**

- In 2018, Gazpromneft – Bitumen Materials once again analysed its consumer loyalty. Based on the results, the loyalty index came in at 78.2, which is 1.6 points above the 2016 level.
- Gazprom Neft’s motor fuels and oils received the seal of excellence award at the 100 Best Products of Russia national contest. The Company’s pool of winners included G-Drive 100, high-octane gasoline, RMD-80, bunker fuel with enhanced environmental features, and automotive propane, all produced at Omsk Refinery, as well as Gazpromneft oil for gasoline engines produced at Gazpromneft-Lubricants.
- In St. Petersburg and Yekaterinburg, the Company’s retail network helped an environmental campaign for drivers to collect and safely recycle tires.

- Gazprom Neft launched AZS.GO, a mobile app to pay for fuel at Gazprom Neft’s filling stations. An in-house development of the Company,
- AZS.GO was downloaded by more than 1 m customers in App Store and Google Play.
- St. Petersburg hosted the first ever quality control exercise for Gazprom Neft’s fuel initiated by social media users. To have their gasoline and diesel fuel tested at the Company’s mobile laboratory, users needed to simply press the Check my Fuel button in the retail network’s official Vkontakte group and leave their contact details.
- According to the Romir market research group, Gazprom Neft’s retail network has the strongest popularity and brand awareness among Russian drivers.
Local communities across Gazprom Neft’s geography

Ways to engage

- social projects as part of the Home Towns social investment programme
- public hearings, roundtables, dialogues
- corporate and external media
- corporate reporting

Key matters

- the Company’s contribution to the social and economic development of local communities and quality of living
- development of human capital, fostering involvement and competencies of local residents in addressing social and economic challenges of their regions
- transparency of the Company’s operations and decisions
- the Company’s financial sustainability
- industrial and environmental safety of the Company’s operations, environmental protection measures

Highlights of 2018

- More than 250 projects were completed as part of the Home Towns social investment programme.
- As part of the sixth contest to award grants to social initiatives, 118 local proposals were supported. The contest was held at six regions across the Company’s geography.
- Home Towns, an annual social investment forum bringing together Russian and international experts, partners, grant winners and volunteers, was held for the fifth time. For the first time ever, the forum provided a training programme for volunteers and grant winners.

Industry community in Russia and globally

Ways to engage

- cooperation agreements
- participation in industry and cross-industry events
- membership in industry committees
- joint projects

Key matters

- involvement in the industry’s development
- doing business responsibly
- observing human rights and HSE standards
- information sharing

Highlights of 2018

- Gazprom Neft’s employees participated in the Council of Chief Power Engineers of Oil Refining and Petrochemical Facilities of Russia and the CIS, established by the Association of Oil Refining and Petrochemical Companies.
- In 2018, Gazprom Neft was strongly involved in the activities of ATIEL, the technical association of the European lubricants industry. The Company also joined new working groups of the Coordinating European Council to develop methodologies that will form part of the next generation industry-wide standard of the European Automobile Manufacturers Association. The standard will cover oils for Euro-5 and Euro-6 diesel engines.
NGOs and non-profit organisations

Ways to engage

➤ conferences and exhibitions
➤ roundtables
➤ joint implementation of social initiatives
➤ reporting

Key matters

➤ industrial safety of the Company’s operations, environmental protection measures
➤ the Company’s contribution to the development of regions and the industry
➤ openness and transparency

Highlights of 2018

➤ The Company continued taking an active part in the Russian Union of Industrialists and Entrepreneurs (RSPP). CEO Alexander Dyukov and Advisor to the CEO Oleg Nikolaenko are Chairman and Deputy Chairman of the RSPP’s Industrial Safety Committee. On 5 December, Alexander Dyukov received a special award from the Union for his contribution to developing and improving Russia’s legislation on industrial safety, enhancing the investment climate and facilitating effective interaction between the business community and the government.

➤ The Company partnered with RADOR, the Russian Association of Regional Road Administrations.

➤ Gazprom Neft and one of the world’s largest R&D centres in the oil and gas industry, IFP Energies nouvelles (France), signed a memorandum of understanding. At their new stage of cooperation, the companies will be innovating in the areas of geology, field development and digitalisation while also providing joint cross-functional training programmes at an international level.

➤ Gazprom Neft’s Scientific and Research Centre, Novosibirsk State University, and the Novosibirsk “Akademgorodok” TechnoPark signed a strategic partnership agreement on R&D activities and educational projects.

➤ Together with the Russian Geographical Society, the Company launched a major research programme to get insights into the life of narwhals, a rate Arctic species included in the IUCN Red List. The Narwhal – Legend of the Arctic project was presented by Alexander Dyukov at a meeting of the Board of Trustees of the Russian Geographical Society chaired by Russian President Vladimir Putin.
CORPORATE CULTURE

The backbone of Gazprom Neft’s corporate culture is its values. The aims and growth areas of the corporate culture are shaped by the Company’s strategy and challenges in the oil industry.

In 2018, as part of the Company’s overall transformation towards the 2030 Strategy, Gazprom Neft launched a major programme to overhaul its corporate culture. The key aim is transition from hierarchical management to facilitative leadership as a new relationship ideology. The Company’s Management Board approved the updated corporate values.

This cultural transformation is designed to foster behaviour conducive to the Company’s strategic objectives. A crucial part of the project is creating a new incentive system that covers a variety of corporate aspects: management by objectives, promotion, salary review, personnel rotation and development.

The key role in the new corporate culture is played by a leader relying on corporate values. To this end, Gazprom Neft has developed a new profile of leadership competencies. Under this model, a leader:

> thinks big, reviews challenges and issues from a variety of angles;
> manages priorities and time effectively and has the ability to focus on what matters most;
> motivates others, fosters an environment where they want to excel, recognises the importance of every team member, and appreciates their contribution;
> keeps on learning, and acts as a role model for continuous improvement.

Continuous improvement that underpins leadership competencies will be the basis for developing new and updating existing corporate training programmes.

Cultural transformation is supported by a large-scale communications campaign and a programme for in-person and online training that targets different audiences. The training programme is developed by leaders as change agents (heads of subsidiaries) and ambassadors for change (heads of HR) depending on the current situation and corporate culture on site. This enables building training programmes that are tailored to each specific facility.

Evolution of Gazprom Neft’s corporate values

FROM 2011 TO AUGUST 2018

- Mutual respect and trust
- Leadership
- Winning mentality
- Business owner mentality
- Integrity
- Safety and environmental protection

AFTER AUGUST 2018

- Innovative thinking
- Collaborating style
- Dedication as a personal trait
- Efficiency as the basis to achieve our goals
- Responsibility as our approach to business
- Safety as our priority
Internal corporate communications

In 2018, Gazprom Neft held a major communications campaign to promote its new mission and reviewed model of corporate values among employees. The focus was on communications between Gazprom Neft’s top executives and rank-and-file employees. A strategic session of the Company’s management, attended by CEO Alexander Dyukov, was broadcast live to announce the start of the programme to develop corporate culture and identify the role of all levels of managers in building the target behaviour.

The campaign involved all existing channels of internal communications and also relied on new marketing forms and channels, including interior design of office spaces and production facilities, branding for office stationery, etc. A major part of the campaign was a contest of stories told directly by employees, who shared their insights on how corporate values help in their everyday work and enable them to make the right decisions, especially tough ones.

Following the communications campaign, 53% of employees of the Corporate Centre identified the new corporate values correctly. The level of employee awareness with respect to corporate values was 21 pp higher compared to 2017. A new stage in the communications campaign will be promoting employee behaviour aligned with the new values.

In 2018, the Company held an annual study of its staff morale among employees of the Corporate Centre, 58 subsidiaries, and seven contractors, covering a total of ca. 27,000 people. The study involved a survey followed by randomised focus groups. The resulting reports for each site will serve as a platform to further foster corporate culture and improve staff morale in teams. Action plans focusing on employee engagement are the basis of all internal communications.

Gazprom Neft’s internal communications tools

- unified system of intranet portals
- corporate media (Sibirskaya Neft corporate newspaper, Neftegazeta newsletter, corporate radio)
- management meetings with teams
- digital displays
- discussion platforms (conferences and roundtables)
- feedback system
External communications

Media relations are governed by the Company’s Information Policy and the corporate standard Procedure for Mass Media Interaction and Distribution of Information. In 2018, Gazprom Neft approved its communications strategy, defining the key focuses of its positioning in the media.

The Company’s main communication tools are leading business and industry media, official websites of Gazprom Neft and its subsidiaries integrated into a single system, and pages on Facebook, VKontakte, YouTube, and Instagram.

Gazprom Neft’s press office quickly responds to media enquiries, provides extensive information about the Company’s projects, and is ready to comment on any pertinent industry-wide matters.

On an annual basis, Gazprom Neft holds a traditional press conference for the key Russian and international mass media following the Annual General Meeting of Shareholders, along with other press conferences and briefings, including those that are part of the Company’s involvement in leading industry forums in Russia and globally. The Company took part in the Russian Investment Forum (Sochi, February 2018), St Petersburg International Economic Forum (St Petersburg, May 2018), and Eastern Economic Forum (Vladivostok, September 2018).

In 2018, Gazprom Neft implemented major digital and media projects with leading Russian and international media, including TASS, RIA Novosti, RBC TV, Russia-24, Popular Mechanics, Discovery, and National Geographic. Columns by the Company’s top management appeared in business and industry publications. Dedicated presentations for the media were held for some of the most important developments of the year, such as commissioning of the Alexander Sannikov and Andrey Vilkitsky icebreakers and “wing-tip” refuelling of aircraft based on the blockchain technology. In 2018, journalists visited the Company’s sites in Moscow, St Petersburg, Khanty-Mansiysk, Orenburg, Omsk, and other regions of operation, and took part in press events organised by the Company in Serbia, United Arab Emirates, and the UK.

CORPORATE NEWS THAT RECEIVED THE STRONGEST INTEREST FROM EXTERNAL AUDIENCES IN 2018:

> Commissioning of the Alexander Sannikov and Andrey Vilkitsky icebreakers;
> Increase of the Neptune field reserves and discovery of the Triton field off the shore of Sakhalin;
> Establishment of the Bazhen Technology Centre, a Gazprom Neft subsidiary, in the Khanty-Mansi Autonomous Area;
> Proven efficacy of the new chemical technique for oil recovery enhancement in Western Siberia together with Shell and Salym Petroleum Development N.V.;
> Discovery of an oil reservoir the size of a freestanding oil field at the Zapadno-Messoyakhskoye field;
> Creation of the industry’s first digital model for the Achimov Formation;
> Construction of a Euro+ refining unit at Moscow Refinery;
> First-ever blockchain-based aviation refuelling;
> Gazprom Neft’s construction of an innovative research centre in Tyumen;
> Board of Directors’ approval of the Development Strategy up to 2030;
> Completion of the deal between Gazprom Neft, Mubadala Petroleum and the Russian Direct Investment Fund to jointly develop fields in Western Siberia.

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**Operations in the Arctic**

In 2018, the Company held an image-building awareness raising campaign to highlight the leading role of Gazprom Neft in commercial development of the Arctic. The campaign’s special focus was on environmental protection as part of Gazprom Neft’s operations in the Far North. The campaign ran across Russia’s major business and industry media and also in airports.
PERSONNEL DEVELOPMENT

EMPLOYEES ARE OUR KEY ASSET AND STRATEGIC PARTNERS IN ACHIEVING SUSTAINABLE DEVELOPMENT GOALS. THE GAZPROM NEFT TEAM CONSISTS OF HIGHLY ENGAGED PROFESSIONALS WHO SHARE THE COMPANY’S VALUES. TAKING CARE OF THEIR WELL-BEING, MAXIMISING OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT, AND ATTRACTING AND RETAINING THE BEST EMPLOYEES ARE THE TOP PRIORITIES FOR GAZPROM NEFT.
MANAGEMENT APPROACHES

Gazprom Neft’s HR Management Strategy for the period until 2020 covers all business units and supports the overall corporate strategy by recruiting highly skilled and motivated employees for the Company’s ongoing and future operations.

In line with the above objectives, the HR strategy focuses on:
- ongoing personnel recruitment and rotation;
- talent pool management, competency development, and training;
- development of an incentive system and engagement culture;
- increasing labour productivity and organisational efficiency.

To meet the Company’s demand for highly skilled specialists in the regions of operation, Gazprom Neft deploys a variety of incentive and social support programmes for its personnel, provides its employees with training and development opportunities, and maintains a talent pool.

Gazprom Neft’s HR policy is fully aligned with the Constitution and Labour Code of the Russian Federation, while also taking due account of the international labour law principles set forth in conventions of the International Labour Organisation. This policy is reflected in a wide range of corporate documents of different levels (see the Personnel Management insert).

**Personnel management**

**KEY DOCUMENTS:**
- Corporate Code of Conduct;
- HR Management Strategy;
- General Agreement between the national associations of trade unions and employers and the Russian Government;
- collective bargaining agreements and by-laws.

**KEY HR POLICY PRINCIPLES:**
- Safety. For the Company, occupational and environmental safety and the safety of local communities have priority over any kind of economic, technical or other considerations. Hence, Gazprom Neft seeks to provide a safe working environment for its employees and urges its partners to do the same.
- Respect and non-discrimination. In the Company, all relations are based on mutual trust and respect. Gazprom Neft views each employee as a unique asset and appreciates all their opinions, as the diversity of talents, cultures, views, and experiences united by a common vision enable the Company to achieve ambitious goals;
- Fair play. The Company is committed to high ethical standards and fair treatment of its employees;
- Efficiency. In an attempt to maximise efficiency, the Company seeks to employ best-in-class professionals with a strong motivation and a clear sense of purpose.

**TOP EXECUTIVE RESPONSIBLE FOR THE HR POLICY AND CONTROL OVER RESPECT OF EMPLOYEE AND HUMAN RIGHTS:**
Alexander Dyukov, Gazprom Neft’s CEO.

**KEY STAKEHOLDERS:**
the Company’s employees and their families, shareholders.
HR management structure

ORGANISATIONAL DEVELOPMENT
AND HR MANAGEMENT DIRECTORATE, CORPORATE CENTRE

> general management of the HR function and strategic management of labour relations;
> development of the HR management strategy, key HR programmes and projects, and oversight over their implementation;
> development of the corporate HR management guidelines.

HR MANAGEMENT UNITS
IN BUSINESS DIVISIONS AND HR BUSINESS PARTNERS

> implementation of strategic HR management programmes and projects at the Company’s subsidiaries;
> development of HR management methodologies and guidelines;
> ongoing operations to deliver on the HR and social policies;
> identification and implementation of best practices in the relevant business area.

HR MANAGEMENT UNITS IN SUBSIDIARIES

> operations related to HR management in the Company’s subsidiaries (personnel records, remuneration administration, compensation and social benefits, headcount and costs planning) as required by the Company’s strategy.

Gazprom Neft guarantees equal rights for all of its employees and prohibits any discrimination based on ethnicity, gender, origin, age, beliefs, or any other reasons. The Company does not use child or forced labour. Gazprom Neft recognises the lawful right of its employees to establish, on a voluntary basis, associations to protect their rights and interests, including the right to form trade unions and join them.

The Company has a hotline to report corruption, fraud, and law violations. Any employee may access that hotline, including for anonymous reports. Every report is processed on a stand-alone basis. In 2018, investigations identified instances of unacceptable employee behaviour, with remedial actions taken to address the issue. There were no labour disputes with the employees.
The Company seeks to attract, engage, and retain the best available employees. Gazprom Neft has developed a distinctive employer value proposition that is based on the demands and expectations of the target audience and takes into account the Company’s strategic objectives and competitive position in the industry. The value proposition is integrated into the management recruitment, onboarding and training processes. According to a survey conducted in 2018, over 75% of employees approve and support Gazprom Neft’s value proposition and would readily recommend the Company as a good employer.

In 2018, Gazprom Neft’s status as one of the country’s leading employers was confirmed by the high scores in Russian and international rankings. Gazprom Neft came out on top of the international Randstad Award ranking leading the charge in the energy sector. Moreover, the Company was named No. 2 Best Employer and No. 1 Employer of Choice by HeadHunter in 2018, while also taking second place as the Most Attractive Employer for students majoring in engineering and natural sciences and third place as the Most Attractive Employer for students pursuing degrees in business and commerce in the Universum Top 100 Russia 2018 rating. To top it off, Gazprom Neft was the only oil company in the Top 15 employers most sought by IT students.

“Gazprom Neft’s leading position among Russian employers demonstrates not only jobseekers’ traditional interest in the oil and gas industry, but also the Company’s ability to provide its employees with more than just decent working conditions and compensation. We offer exciting jobs and a wide range of opportunities to grow professionally while working on promising projects, and expect a strong talent pool to boost our technological leadership in the industry.”

Kirill Kravchenko
Deputy CEO for Organisational Affairs at Gazprom Neft
In the reporting year, Gazprom Neft had 70,600 employees, with blue-collar and white-collar workers making up 47% and 53% of the total headcount, respectively. 16,808 employees joined the Company and 15,205 people left. The average headcount was up 4.1% y-o-y driven by stronger labour demand caused by changes in the production assets’ operational programmes, growing output, and the expanding operating range of the subsidiary service providers.

In 2018, the turnover rate was 12.9%, down 2.2 pp y-o-y. To get a better understanding of the causes of attrition at subsidiaries, the Company is introducing a new tool – Robot Vera, an automated interview service for the outgoing staff. The service allows making calls to virtually all employees leaving the Company. Monthly analysis of the actual reasons behind resignations and ensuing remedial actions helped reduce the turnover rate in the regions with the highest personnel loss ratios by 5% y-o-y.

Gazprom Neft has a job placement programme for employees of the projects/facilities that are scheduled for shutdown. Some 6–8 months prior to the shutdown of a facility, project, or a development site, the Company forms a cross-functional team and develops a job placement plan to be implemented by the Head of Organisational Development and HR Management. Under this plan, the Company makes up a list of potential vacancies within the corporate structure, informs employees about such vacancies, and arranges personal sessions for employees to talk to the managers of business units offering the potential job placement.

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1 Full-time employees only (no records of part-time employees are kept).
2 For more details on HR management, including personnel costs, professional training figures by category, etc., see Appendix 1 (Additional information and sustainable development metrics).
The Company has a unified employee incentive system designed to recruit, retain and develop talented professionals, while also supporting employees’ career and professional growth.

The objectives and principles of financial and non-financial employee incentives are set forth in the single Corporate Standard.

The incentive system is based on the following principles:
> external competitiveness;
> internal equity;
> performance-based remuneration;
> impartiality, transparency, and availability of information to employees through a variety of convenient channels;
> comprehensive approach to assessment and development;
> sharing of training and professional development responsibilities among employees, managers and the Company;
> additional training available to every employee.

Cumulative employee compensation model

**Work Environment**
- Workspace
- Work-life balance
- Relations and culture
- Guarantees and benefits

**Recognition**
- Feedback
- Recognition of personal achievements
- Recognition of team achievements
- Professional contests

**Base Fee**
- Base salary
- Remuneration for professional skills
- Compensation for labour conditions
- Compensation for new functions assigned

**Performance-based Remuneration**
- Short-term remuneration
- Long-term remuneration

**Growth Potential**
- Training and development
- Mentoring and expertise development
- Employee participation
- Career management
- Volunteering and charity
- Sporting and cultural events

122,587 +8% y-o-y
₽ Average salary at the Company in 2018

101.5 +13% y-o-y
₽ BN personel costs

The objectives and principles of financial and non-financial employee incentives are set forth in the single Corporate Standard.
2018 saw the Company transform the employee remuneration package on the basis of a cumulative compensation approach, including base fee, performance-based remuneration, growth opportunities, recognition of achievements, and workplace environment (including social guarantees and benefits, working conditions, and corporate culture).

Specific remuneration components and their balance in the wider compensation model are defined taking into account the motivation profiles of different personnel groups. The model will help align the Company’s objectives and personal employee needs, while also setting the stage for flexible HR and business strategies.

Gazprom Neft seeks to make sure that all components of its remuneration system are highly competitive. The Company analyses labour markets in the regions of operation and regularly adjusts salaries and wages in line with the market trends. There is no difference between the base salaries of men and women. In 2018, the average monthly salary at Gazprom Neft was ₽ 122,587.

In 2018, Gazprom Neft approved a new bonus calculation approach based on comprehensive assessment of the business unit and employee performance. The new system is expected to be piloted at three subsidiaries in 2019.

The Company makes sure to offer its employees a balanced benefits package and competitive social security guarantees. A single social benefits system effective at all subsidiaries comprises compulsory (base) and potential (extra) compensations².

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1 Salaries in the regions are shown in accordance with the data for 2018 provided by the Federal State Statistics Service http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/wages/.

2 For a list of benefits, see Appendix 1 Additional information and sustainable development metrics.

3 Excluding joint ventures.

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Personnel expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Payroll (₽ m)</th>
<th>Social benefits (₽ m)</th>
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<tbody>
<tr>
<td>2014</td>
<td>58,510</td>
<td>2,097</td>
</tr>
<tr>
<td>2015</td>
<td>74,400</td>
<td>2,432</td>
</tr>
<tr>
<td>2016</td>
<td>79,316</td>
<td>3,260</td>
</tr>
<tr>
<td>2017</td>
<td>86,600</td>
<td>3,177</td>
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<tr>
<td>2018</td>
<td>97,865</td>
<td>3,596</td>
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</table>

Average monthly salary

<table>
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<tr>
<th>Year</th>
<th>Average (₽)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>84.8</td>
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<tr>
<td>2015</td>
<td>100.2</td>
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<tr>
<td>2016</td>
<td>104.9</td>
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<tr>
<td>2017</td>
<td>112.9</td>
</tr>
<tr>
<td>2018</td>
<td>122.6</td>
</tr>
</tbody>
</table>

Source: Company data
The Company runs non-financial incentive programmes, updating their contents and formats in line with its strategic goals.

One of the key programmes involves individual and team competitions of professional skills, held across the Company’s divisions.

The competition programme is updated on an ongoing basis to cover new areas of expertise and most relevant competencies, with the number of participants, regions, and countries involved constantly growing.

250 employees from 13 subsidiaries, including foreign operations, participated in the 10th International Best in Profession Contest of the Upstream Division, with winners invited to take part in the nationwide stage of the Best in Profession Contest.

In 2018, the Best in Profession Contest of the Downstream Division underwent transformation from an in-house corporate event to an industry-wide competition attracting participants from all subsidiaries of the Division, NIS (Naftna Industrija Srbije A.D., Novi Sad), Rosneft, TANECO, SIBUR, SLAVNEFT, and Gazprom neftekhim Salavat. For the first time in the Contest’s history, the competition in the Chemistry Lab Technician category was held under the rules of WorldSkills, an international championship of vocational skills.

When selecting candidates for participation in the 10th anniversary edition of the Contest, the Regional Sales Directorate reviewed not only contestants’ expertise, but also their performance indicators and managerial skills. This year, the Contest tried out a new format, with the second day dedicated to socialisation, experience exchanges and introduction to the latest technologies implemented or developed by the Company.

The Company’s key non-financial incentive programmes also include target programmes of business units intended to recognise strong performance. These programmes offer contests for corporate teams, performance-based bonuses for production facilities, employees and teams, including contractors, Summer and Winter sports games for employees, and other leisure activities.

“The Company aims to set a global benchmark against which other businesses will assess their performance and technical efficiency. We have made a clear step forward by joining the WorldSkills movement, holding corporate championships, and introducing our employees to international professional standards.”

Alexander Panov
Head of Engineering and Technology Policy Department, Downstream Division
COLLABORATION WITH TRADE UNIONS

The Company maintains long-standing partnerships with trade union organisations. Trade unions take an active part in promoting safety culture and negotiating changes in Gazprom Neft’s social benefits, attending meetings of HR executives and contributing to HSE initiatives.

The Company has put in place youth committees responsible for protecting the interests of young employees and onboarding of young professionals.

Gazprom Neft cooperates with the Gazprom Workers’ Union and trade unions operating within the Gazprom Neft Group. The latter include trade unions of Gazpromneft Omsk Refinery, Gazpromneft Moscow Refinery, Slavneft – YANOS, Gazpromneft-Noyabrsk, Gazpromneft-NNG, NEN, Gazprom Neft Orenburg, and Omsk Lubricants Plant, a branch of Gazpromneft – Lubricants.

Over the last year, the Company built an effective relationship between the Gazpromneft-Noyabrsk trade union and PJSC Gazprom Neft based on the principles of social partnership, collective bargaining, equitable treatment and mutual respect.

The Company has a collective bargaining framework in place. Collective bargaining agreements and internal regulations serve to formalise the Company’s social commitments, including those regarding health, safety, environment and social guarantees in the event of facilities closure/reorganisation. No significant amendments were introduced into collective bargaining agreements in 2018. The corporate trade union coordination board took a favourable view of the social and labour relations with trade unions.

See also the Stakeholder Engagement section of the Sustainability Management chapter.
PERSONNEL TRAINING AND DEVELOPMENT

1,100 ₽M invested in development and training

Gazprom Neft’s training and development system covers all of the Company’s employees and contractors, as well as target groups of potential employees such as school and university students. The training programmes are aligned with the strategic goals of Gazprom Neft and factor in the results of managerial skills and professional expertise assessment.

The Company has its own Corporate University, an integrated knowledge management centre embracing the entire range of corporate training and development practices.

Corporate University model

- Development programmes covering all key focus areas
- A uniform educational environment to meet the Company’s development and training needs in a flexible and efficient manner
- Identification of business needs and development of a professional cluster within specialised departments
- Single platform for those who have the required expertise and those who need training
- A competency-based approach to training programmes; target programmes for employees
- A corporate knowledge pool accessible to all employees
Key highlights

> Several thousand managers and experts from Gazprom Neft are involved in the University activities.
> The in-house mentorship and public speaking training are on the upswing.
> Every employee has opportunities for continuous professional development.
> The University portal provides employees and contractors with seamless access to the knowledge pool of Gazprom Neft.
> All training is practice oriented.

Key focus areas of the Corporate University

**VOCATIONAL TRAINING**

> Upstream Faculty;
> Downstream Faculty;
> Faculty of Corporate Functions;
> Faculty of Health, Safety, Environment and Operational Excellence;
> Regional Sales Directorate.

**EXECUTIVE TRAINING**

> Faculty of Managerial and Cross-Corporate Competencies.

**DIGITAL TRAINING**

“Today, a person’s way of thinking, mindset and awareness of his/her responsibilities matter more than professional skills. The person learns from the experience and changes behaviour accordingly. We leverage these trends in our corporate development programmes by creating a unique educational environment.”

Ilya Dementiev
Corporate University President

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1 The number of training hours per employee decreased due to the optimisation of personnel development programmes and enhancement of hands-on site (on-the-job) training initiatives.
MOST NOTABLE PROJECTS
OF THE CORPORATE UNIVERSITY
IN 2018 INCLUDED:

> **Study of turbidites**, a dedicated programme developed as part of the Bolshaya Achimovka project designed to explore hard-to-recover oil reserves;

> **SciencEngineering**, a cross-functional programme addressing complex engineering solutions and decision-making. The programme promotes a multi-disciplinary approach to training that enables a more profound and efficient analysis of comprehensive engineering solutions and establishment of local centres of excellence, which may function as in-house sources of expertise;

> **Industry 4.0 technologies** course of lectures on business digitalisation developed in collaboration with the Skolkovo Institute of Science and Technology;

> **Listen, Future!**, an open science and technology conference of the Downstream Faculty with 150 participants, including Gazprom Neft’s professionals, employees of Russia’s major industry players, and partner universities;

> **Hearts & Minds**, a dedicated offshore safety programme and additional training course for the members of a Professional emergency and rescue team with the participation of Andrey Legoshin, advisor to the Deputy Minister of Defence of the Russian Federation;

> the first contest of test questions preparation for assessing professional competencies in the Downstream Division. The contestants reviewed over 2,300 tasks covering 109 competencies. The updated test base found application in the annual assessment of competencies to be further used for preparing personal development programmes;

> designing **(Digital) Coach**, an online resource intended to help employees in managing their development by building a customised track;

> rolling out the **Agile Learning Space**, an educational project created by the Regional Sales Directorate together with the Corporate University. The learning space has turned into a unique platform for experience and idea sharing both within the Company and in the industry as a whole. During the reporting year, over 1,500 employees and guests attended eight lectures on topics selected by the audience such as competencies of the future, new thinking paradigms, Company digitalisation, project management analytics, etc.;

> training the participants of the **Leaders of Russia competition** – an open nationwide competition for the new generation of managers designed to build the country’s talent pool and provide gifted managers with a social mobility mechanism. In 2018, 1,200 mid-level managers submitted applications for participation, 37 of them were through to the semi-final, 11 reached the final and 6 became winners. Alexander Dyukov, Chairman of Gazprom Neft’s Management Board, was among the finalists’ mentors.
Training for the future

Since 2017, the Company has been operating a Corporate Talent Training Centre created from the Muravlenko Multidisciplinary College. The Centre has a functional simulator helping gain online “full immersion” experience in operating equipment and processes under various geological and technical conditions, in standard situations and in emergency. The simulator can also train and retrain employees in high-potential jobs associated with the development of the North and the Arctic. The new training centre and operation of the Muravlenko college-based Well Development and Operation laboratory enable a proactive approach to training as required by the region’s innovative economy.

Corporate University

Through its innovative training model, Gazprom Neft has put in place a universal Company-wide educational environment, where every employee may be both a student and an expert.

2,500 COURSES available on the University portal

26 DEPARTMENTS

5 FACULTIES
TALENT POOL DEVELOPMENT

How we build Gazprom Neft’s talent pool

**VOCATIONAL SCHOOL AND UNIVERSITY STUDENTS:**
- establishing departments, designing master’s and bachelor’s programmes jointly with universities;
- supporting sponsored education programmes for promising students (grants and scholarships).

**YOUNG PROFESSIONALS:**
- Three Milestones onboarding programme;
- Fast & Furious onboarding programme of the Downstream Division;
- young professional development programmes;
- science and technology conference for young professionals.

**HIGH SCHOOL STUDENTS:**
- career guidance for school children;
- Gazprom Neft’s specialised class;
- Developing Talent case tournament for high school students;
- supporting other science and technology skills competitions and championships.

**COMPANY EMPLOYEES:**
- selecting high-potential employees to be added to the talent pool;
- individual career planning, professional and managerial skills development programmes.

The corporate talent pool programme embracing the School – Vocational School/University – Enterprise stages offers career guidance for high school students, sponsored education at universities and vocational schools, work with high-potential employees and planning of their career. The Company cooperates with schools and universities as part of its corporate programme Step into the Future corporate programme.
Results of the Step into the Future programme in 2018:

- **47** AGREEMENTS with universities
- **5** SPECIALISED DEPARTMENTS at universities
- **185** SPONSORED UNIVERSITY STUDENTS
- **1.2 thousand** STUDENTS completed internship in the Company
- **144** STUDENTS receive scholarship from the Company
- **296** GRADUATES of universities / vocational schools hired by Gazprom Neft

**HIGHLIGHTS OF TALENT POOL PROGRAMME 2018:**

- the Developing Talent case tournament attracted 2,366 8th to 11th class students from regions where Gazprom Neft operates. All competition tasks were prepared by experts of the corporate Science and Technology Centre and focused on putting into practice the knowledge obtained at school. The winners become eligible for employer-sponsored degrees in partner universities and additional points for admission to St Petersburg University;
- preliminaries of GPN Intelligence Cup for graduate bachelor’s degree students and masters in Engineering and Economics were completed. The winners will be awarded with paid internship at Gazprom Neft’s Regional Sales Directorate in St Petersburg and Yekaterinburg, as well as a chance to join the Company;
- St Petersburg University introduced a master’s programme in geological support of hydrocarbon field development; Murmansk State Technical University launched its proprietary educational programme in the procurement and logistics for offshore projects in oil and gas industry. The Ryazan Institute of Moscow Polytech launched a course in motorway construction;
- joint Gazpromneft – NSU Research and Educational Centre was inaugurated as a partnership of the Company, Novosibirsk State University, and Academpark;
- 148 people took part the science and technology conference for young professionals.

The Company promotes a system to build a talent pool around the current employees. The Talent Committee selects candidates to the talent pool based on an annual personnel performance and potential assessment. 24,574 employees were assessed in 2018. Tailor-made development programmes are prepared for talent pool members with different training formats available, including the Growth career planning portal.
SAFETY IS THE KEY PRIORITY FOR GAZPROM NEFT. NO ECONOMIC, TECHNICAL, OR OTHER CONSIDERATIONS MAY BE TAKEN INTO ACCOUNT IF THEY CONTRADICT THE INTERESTS OF ENSURING OCCUPATIONAL HEALTH AND SAFETY, AS WELL AS THE SAFETY OF LOCAL COMMUNITIES AND THE ENVIRONMENT.
MANAGEMENT APPROACHES

Gazprom Neft remains committed to ensuring the health and safety of its employees. In the field of health, safety and environment, the Company strives to achieve the strategic Goal Zero: no harm to people, environment and property in working process.

The main focus areas for achieving this objective are reflected in the corporate HSE Policy Statement, including:

- reduction of workplace injury and occupational disease rates, accident hazards and environmental impact;
- consistent implementation of best global HSE practices.

HSE management

HSE requirements include, but are not limited to, industrial, fire and environmental safety standards, occupational health and electrical safety regulations, and emergency response provisions.

KEY DOCUMENTS

- HSE Policy Statement

KEY POLICY PRINCIPLES

- The Company’s management is fully aware of its responsibility to protect health of Gazprom Neft’s employees and people residing across the Company’s footprint, as well as to create safe working conditions for productive work and prevent any adverse environmental impact.
- No economic, technical, or other considerations may be taken into account if they contradict the interests of ensuring occupational health and safety, as well as safety of local communities and the environment.
- The Company’s executives consider the HSE management system essential and declare their responsibility for the successful management of production risks impacting employee health and safety, equipment, property, and the environment.

KEY STAKEHOLDERS

The Company’s shareholders, executives and employees, local communities, contractors, business partners, non-profit and public organisations
To this end, all of Gazprom Neft’s facilities have a corporate safety management system in place. In 2017, the Company established a single Operating Management System Committee, a high-level collegial body headed by CEO Alexander Dyukov. The Committee is responsible for the HSE strategy.

In 2018, the Company’s workplace safety function set up an HSE Professional Board comprising senior management of the HSE Directorate and representatives of workplace safety functions across the Divisions. The Board is designed to prepare consolidated resolutions on key matters for Gazprom Neft’s workplace function.
The Company views safety culture as an important tool in achieving the Goal Zero and seeks to make sure that its employees have no concerns about their safety when they start working on a new assignment. Gazprom Neft’s safety training system plays a pivotal role in the Company’s corporate safety culture. The training process is all-encompassing and highly standardised while also being closely related to other elements of the safety management system.

In 2018, the Company continued implementing its three-year targeted training programme launched back in 2016. As part of the programme, training courses are developed and run in the areas identified by the Company as priority ones for achieving the Goal Zero, including leadership in the field of workplace safety, asset reliability, risk assessment, interaction with contractors, transport safety, and development of the workplace safety function. In 2018, over 29,000 employees and 13,000 contractors completed dedicated training.

In-house coaching is another key driver behind the Goal Zero mission. Corporate coaches are the Company’s employees who combine their main job responsibilities with mentorship assignments. This format has proved its efficiency over the years, with Gazprom Neft now focusing closely on the organisation of training sessions and coach meetings along with the assessment of mentorship competencies.

### Key safety rules

In 2017–2018, Gazprom Neft ran a large-scale information campaign for the employees of its subsidiaries and contractors focusing on the implementation of the key workplace safety rules. They are mandatory for all Gazprom Neft’s employees and contractors across the Company’s footprint and include 11 basic rules aimed at creating target safe behaviour of the employees, significantly reducing injury risks and, coupled with the best practices, bringing the Company closer to achieving its strategic Goal Zero mission. The rules were implemented not only through training, organising and motivation campaigns, but also through taking disciplinary actions against rule breakers.

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1 Mandatory training in line with statutory requirements.
2 Number of employees trained in line with statutory requirements for educational and additional corporate programmes focusing on workplace safety.
**TRANSFORMATION OF WORKPLACE SAFETY**

In 2018, Gazprom Neft embarked on the transformation of its HSE system as part of a wider business transformation exercise, with the Company seeking to join the ranks of global workplace safety champions by 2030 in line with its Development Strategy. The system transformation relied on a risk-based approach, with a series of PDCA (Plan-Do-Check-Act) projects developed by Gazprom Neft for its implementation.

- **Targets**: to establish priority HSE risks.
- **Safety framework**: to set obstacles for risks including those associated with contractors.
- **Certification, inspection, investigation**: to ensure reliability of the obstacles set.

More than 80 internal experts from across the Company’s units, Divisions and hierarchy levels were mobilised to help draft the HSE transformation programme. Projects to introduce a cyclical risk-focused approach are to be launched in 2019.

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**Priority areas of the HSE transformation programme**

- **FUNDAMENTAL TECHNOLOGICAL BARRIER**: Technical condition of equipment and operational setup
- **COMPETENCY BARRIER**: Ensuring that only competent employees have access to work
- **DIGITAL BARRIER MANAGEMENT**: Eliminating human factor where applicable

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**Control technologies**

In 2018, the Upstream Division implemented a project that won the Division’s corporate security competition award. Gazprom Neft Orenburg has introduced an electronic control system that evaluates contractors’ compliance with safety requirements and provides information on their training, certification, medical check-ups and the admission of personnel and vehicles to work by technical control stations.

In the long term, the project provides for the integration with the video surveillance system, larger scope of documents to be included into a single electronic pass, etc. As a result, Gazprom Neft Orenburg will have a unified database of contractors’ employees and vehicles. The project is planned to be rolled out to other subsidiaries of the Upstream Division.
CONTRACTOR MANAGEMENT RESPONSIBILITY

Compliance with corporate safety standards is a key criterion in selecting Gazprom Neft’s contractors. Interaction with contractors is determined by the corporate standard Procedure for Management and Organisation of Interaction with Contractors on HSE Issues, which was updated in 2017 and sets out Gazprom Neft’s requirements applicable to contractors during their selection, management and performance assessment.

Contractors’ obligation to comply with legislative and corporate HSE requirements is formalised in contracts. Ensuring conformity with the requirements is far from being the only focus area in the Company’s contractor relations policies. Gazprom Neft builds partnerships and seeks to create an environment that would promote workplace safety and encourage suppliers to cooperate with the Company on a long-term basis.

With this in mind, the Company runs a corporate contractor engagement programme called Steps, which embraces every stage of supplier relationships, from selection to the assignment of final ratings, and a new initiative called the Contract Performance Management System.

Steps programme

1. Review and selection of candidates, drafting and signing of contracts
   At this preparatory stage, the contractor should assess its resources required to ensure health and safety, and make a binding commitment on its responsibility and ability to meet legislative and corporate HSE requirements.

   The Company’s long-term goal in this area is to make a clear but rigorous screening of contractors and to ensure transparency of the resources planned to deliver the required level of health and safety.

2. Work delivery. Contractor performance management
   During this stage, the contractor is engaged, contract performance is monitored, and equipment, machinery and employee qualifications are checked. At this stage, Gazprom Neft’s long-term goal is to ensure that no contractors are allowed to start working until they meet the requirements under the contract.

   The Company is developing various tools to control the contractors’ activities. Along with the Contract Performance Management System and Owners of Contracts With Contractors in place, subsidiaries arrange mobilisation audits for contractors.

3. Contract closure and final rating
   At this stage, the Company evaluates contractors’ performance. Assigning ratings helps to compare contractors and take a proactive approach in dealing with those who fail to show improvements. The long-term goal in this area is to integrate performance indicators, including those associated with HSE, into the corporate information system, ensure transparency and bonus payments for contractors’ staff based on positive results of their performance.

   Steps is a set of comprehensive initiatives designed to improve safety culture, motivation and training of contractors’ staff as well as enhance their social and working conditions.
Contractors are included in the corporate HSE training system. A dedicated programme has been developed which is mandatory for managers to manage operations at Gazprom Neft’s facilities. Contractors’ representatives take part in training courses and video briefings, and actively participate in the School of HSE Supervisors. The main goal of the School is for supervisors to start proactive work set to develop a culture of safe behaviour. In 2018, the training in the Upstream Division covered over 1,000 supervisors, with contractors’ staff accounting for 70%.

Contract Performance Management system

The Upstream Division employs the Contract Performance Management System, which is a new model for monitoring contractors’ fulfilment of contractual obligations related to the workplace safety. Performance of obligations is monitored by the dedicated teams of the customer’s and contractor’s representatives who control the compliance with safety requirements, solve arising issues and ensure transparency on the site. This model facilitates ongoing and quick cooperation between the Company and the contractor. It shifts focus from the violations of requirements to act proactively, and eliminates the risk of biased attitude towards contractors. Joint teams contribute to more transparent and structured communication in performing contractual obligations.

The introduction of Steps and the Contracts Performance Management System helps prevent and mitigate possible risks during the contract performance management. The two programmes enable Gazprom Neft to take another step towards building a partnership model of interaction with contractors.

Contractor safety

Introduction of the Etalon OMS by Gazprom Neft’s Upstream Division started with component 6 (Supplier and Contractor Management) since contractors do most of the upstream work, including well drilling, construction, repairs, prospecting surveys, power supply, and logistics. New developments might involve up to several thousands of contract employees, so the key task is to ensure contractor safety on the site with no compromise on performance. Experience shows that the mere inclusion of safety provisions into the agreement does not guarantee that they will be met by contractors. It was decided to set up joint customer and contractor teams to monitor how they meet contractual obligations. These teams control the compliance with safety requirements, solve arising issues and make the on-site conditions transparent.

“The first step towards creating an integrated team is close cooperation with contractors, which is important for all production assets of the Company. Involvement of contractors’ engineering and technical employees not only in the construction process, but also in the discussion and development of joint approaches and initiatives designed to improve the production culture, is already starting to reduce the number of violations.”

Maksim Ovsyannikov
Head of Capital Construction Programmes of the Oil and Gas Production Department
HEALTH, SAFETY AND ENVIRONMENT

The Company’s key HSE priorities comprise continuous improvement of workplace safety and reduction of accident and injury rates and occupational diseases. The Company’s main professional and technology-related HSE risks include equipment failures and breach of organisation rules for high-hazard operations, as well as violation of regulatory requirements and safety rules by contractors.

To mitigate these and other safety risks, the Company manages them in accordance with the corporate standard based on qualitative risk assessment. The Company uses advanced international methods such as HAZID/ENVID (hazard identification), HAZOP (hazard and operability study) and PHSER (HSE risk review) to assess technology-related risks during design, construction, operation and liquidation processes. Technology-related HSE risks are managed by the equipment reliability improvement programme. Due to the importance of this production area and HSE, it has been singled out as a separate OMS component.

Reliability management is based on risk assessment at all stages of the production cycle, from design to dismantling and disposal. At the operational stage, the Company needs to ensure smooth and reliable operation of equipment throughout its life time and reduce the number of its repairs.

To this end, the Company uses advanced approach and assessment tools such as RCM, RBI and RCA enabling us to rank equipment based on its criticality for production, focusing on highly critical facilities, to implement a failure analysis system that identifies and classifies its causes, and to effectively manage the process using the statistics collected.

The assessment methods of occupational risks in workplace safety are designed to make sure that employees have no concerns about their safety when they start working on a new assignment. To mitigate this group of risks, the Company is developing various occupational controls and improving its safety culture.

The main programmes set to foster safety culture and leadership in this area include rating to subsidiaries based on HSE criteria, monitoring dangerous actions and hazardous conditions on a dedicated observation map, and conducting leadership safety behaviour audit.

As part of rating process, the Company’s subsidiaries are assessed based on proactive (initiatives seeking to prevent accidents) and reactive [rates of injuries, accidents, road traffic accidents, etc.] criteria and are ranked according to the achievement of HSE targets.

Leadership safety behaviour audit is one of the key tools for line managers to control safety behaviour at the production facilities. This is a regular documented process of monitoring an employee’s work on an assignment and his/her work areas/places, followed by a conversation with him/her to correct dangerous or encourage safe behaviour.

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1 Excluding joint and overseas assets. Including investments in occupational, fire and transport safety, civil defence, HSE; excluding environmental investments.

2 The RCM (Reliability Centred Maintenance) methodology helps to identify and select maintenance focused on reliability. The RBI (Risk Based Inspections) methodology provides technical condition controls based on the risk analysis of technical devices. The RCA (Root Cause Analysis) methodology analyses losses that account for most of the damage in order to prevent them.
The observation map for monitoring dangerous actions and hazardous conditions enables us to involve personnel in the process of revealing dangerous actions and conditions, and promptly eliminate problems and mitigate the risk of incidents or emergencies while interacting with line managers on an ongoing basis.

**THE COMPANY’S KEY SAFETY IMPROVEMENT PROGRAMMES INCLUDE**

- equipment safety reviews and alignment of production facility characteristics with workplace safety regulations;
- upgrade of accident prevention systems;
- emergency prevention and response plans;
- control of compliance with HSE rules;
- maintenance of safe working conditions and workplaces that fully meet statutory and corporate safety requirements;
- provision of personal protective equipment;
- occupational health initiatives.

In the reporting year, the Company registered one accident and 1,068 incidents at hazardous production facilities.

We are profoundly saddened to report that one employee died while working at the Company’s production facility. After the death of a filling station operator as a result of a pulmonary heart failure caused by hydrocarbon poisoning, a detailed investigation was launched to develop an action plan minimising the risk of similar accidents going forward. In line with this plan, all of the Company’s designated subsidiaries have put in place relevant prevention initiatives.

In 2018, FAR across the Company’s production and service subsidiaries in Russia stood at 0.89. Number of fatalities involving contractors’ personnel on the Company’s sites decreased from 10 in 2017 to 4 in 2018.

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3 To calculate the number of accidents in 2018, the Company used a new methodology as prescribed by Order of the Federal Environmental, Industrial and Nuclear Supervision Service (Rostechnadzor) No. 29 On Approval of Methodological Guidelines for Classification of Technogenic Events in the Realm of HSE Taking Place at Hazardous Oil and Gas Production Facilities dated 24 January 2018. In line with these new guidelines, some of the incidents previously classified as first grade technogenic events or incidents, are classified as second grade technogenic events and no longer regarded as incidents starting from 2018.

4 LTIF (Lost Time Injury Frequency) is the number of lost time injuries occurring in a workplace / total hours worked by all employees * 1 million. LTIF is shown for the Company’s production and service subsidiaries in Russia.

5 Fatal accident rate (FAR) is calculated as the number of fatalities/ total number of hours worked by all employees * 100 million. FAR is shown for the Company’s production and service subsidiaries in Russia.

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### Number of workplace injuries (persons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Injuries</th>
<th>Fatalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>43</td>
<td>2</td>
</tr>
<tr>
<td>2015</td>
<td>41</td>
<td>2</td>
</tr>
<tr>
<td>2016</td>
<td>38</td>
<td>3</td>
</tr>
<tr>
<td>2017</td>
<td>36</td>
<td>1</td>
</tr>
<tr>
<td>2018</td>
<td>29</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Company data
Responding to emergencies

To ensure civil defence, the Company enhances the emergency resilience of its production facilities and trains its employees to respond effectively, including in harsh weather conditions.

The Company has an Emergency Prevention and Response System. It is focused on:

- planning and implementing emergency prevention initiatives;
- protecting employees and production facilities;
- enhancing the resilience of production facilities;
- mitigating the risk of industrial emergencies;
- minimising property damage from emergencies;
- using relevant action plans to recover from natural and industrial emergencies.

The Prirazlomnaya offshore ice-resistant stationary platform is a hazard class 1 production facility, which puts it in the highest risk category. The area occupied by this highly sophisticated complex is very small and risks arise when different types of work are performed there simultaneously. This makes the Company pay special attention to the platform’s safety. To this effect, Gazprom Neft leverages the most advanced solutions available. Prirazlomnaya’s safety system monitors industrial processes, as well as fire and gas alarm and emergency shutdown systems, and, in case of an incident, ensures safety with no need for human involvement (fail-safe mode). All processes are automated and backed up.

In 2013, the Company put into effect an action plan for oil and petrochemical spill prevention and response in the Prirazlomnaya platform area, which describes the most probable oil spill scenarios, indicates resources and manpower required for response, and sets forth procedures for interaction with professional emergency and rescue teams and government agencies. Following the update in 2018, the plan passed the state environmental review as required by the applicable Russian laws.

The engineering solutions to ensure safety, also include walls able to withstand temperatures above 1,000°C for two hours, a gas and fire alarm system, a fire and explosion suppression system, capable of tackling gas explosions with an inert gas (freon), and robust evacuation systems (lifeboats, rescue rafts, and bridge-like structures to facilitate the boarding process).

All wells are equipped with safety valves activated by the emergency shutdown system, to prevent blowout of formation fluids. An abnormal decrease or an increase in pressure detected by sensors will trigger an alarm. If the pressure reaches a critical level, the well pump will shut down and the valves, which can resist very strong pressure, will close to shut off the well.

The Company organises emergency response training for its staff. Exercises and drills take place in the Prirazlomnaya area on a regular basis to ensure maximum alignment of the response team in case of any emergency. Exercises are held both offshore, including in ice conditions, and onshore, to protect the coastlands of the Varandey settlement and remote islands.

In June 2018, after this plan was updated, the Company held a large-scale oil spill response exercise at the Prirazlomnaya platform and drills to protect the coastlands of the Varandey settlement and Dolgy Island from oil contamination.

The event featured the Company’s own personnel and resources, including Ecoshelf-Baltika’s professional emergency and rescue teams and Gazprom Avia’s aircraft, as well as oil spill response personnel and resources of Varandey Terminal.

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1 Lower mechanical sensitivity of explosives through addition of inert gases.
Emergency response drills and training sessions

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drills and training sessions</td>
<td>854</td>
<td>643</td>
<td>322</td>
<td>371</td>
<td>236</td>
</tr>
</tbody>
</table>

The reporting year’s major initiatives included the following:

> A unique training facility opened at the Omsk Refinery to provide opportunities for acquiring and practising work at height skills. The nine-metre-high three-tier complex is one of a kind in the Russian oil refining industry. It has 12 functional zones for all types of work at height, including those involving the use of ladders or moving across or along horizontal or vertical metal structures, slopes or piperacks.

> The Company was the first member of Gazprom Group to implement initiatives focused on quenching blowouts at subsea wellheads: a relief well drilling programme was developed that allows for the use of a jack-up rig, and a quadrilateral agreement on quenching blowouts at subsea wellheads was signed.

Under the exercise plan, a leak from a storage tank would cause an oil spill into the Pechora Sea. Operating personnel, icebreaker fleet, and emergency equipment, both on-site and onshore, were mobilised for emergency and rescue operations, with the Pechora Sea monitored constantly using aircraft above Prirazlomnaya, Varandey and remote islands. Booms were towed to protect the coastlands. A rescue team, site camp, and equipment were flown to Dolgy Island. It was also the first time when the operations included rescuing wild birds that nest in coastlands.

> The exercise confirmed the Company’s high emergency preparedness, with Gazprom Neft’s emergency and rescue divisions joining forces with other participants and cooperating organisations to deliver effective response.

“While the risk of emergencies is minimal thanks to technologies at Prirazlomnaya, we must always be prepared for any incident. Our key priority here is to safeguard the platform’s personnel and ensure that we do not cause any harm to the Arctic ecosystem.”

Andrey Patrushev
Deputy CEO for Offshore Development

Read more about ensuring safety in the Prirazlomnaya platform area
Transport safety

Gazprom Neft’s transport safety programmes include workplace control initiatives, defensive driving courses, safety briefings and training sessions, and monthly HSE meetings (stand-ups).

The Company’s project teams seek to improve safety across Gazprom Neft’s priority areas, which include air, water, and road transport, with dedicated roadmaps through 2019 in place. The project teams are responsible for drafting internal regulations, which set operating standards for all assets. In 2018, the Company drafted and approved a document that regulates workplace safety issues at the railway facilities and is aimed at mitigating possible risks and bringing the number of accidents to zero. Gazprom Neft was the first among oil and gas companies to develop such a document.

Training is an important part of transport safety programmes.

The updated road traffic safety management system launched in 2017 focuses on developing the ability of drivers to predict and avoid emergency situations. In 2018, the dedicated training sessions covered some 49,000 drivers working for Gazprom Neft and its contracting companies.

In the reporting year, the Upstream Division introduced 38 mobile road safety teams to prevent road traffic accidents, monitor drivers, oversee compliance with the operating rules pertaining to the road transport and special equipment, and examine the condition of roads and access roads.

In 2018, the Downstream Division began piloting a vehicle tracking system featuring an online control system and an AVL hardware to monitor driving behaviour. The pilot project involves assets transporting hazardous goods.

In 2018, Gazprom Neft’s IT team completed an R&D project focusing on using the video analysis to improve road transport safety at the Company’s sites. The researchers developed a tool based on a neural network algorithm to analyse and control driver behaviour.

Artificial intelligence recognises violation of safe transportation rules by drivers, such as using a mobile phone, smoking in the car, being unbelted, or driving with third persons. The new system is self-learning. As soon as it accumulates sufficient data, it becomes capable of not only registering standard incidents, but also identifying the new ones.

Data from the vehicle trackers are transferred online to the operator who responds to dangerous actions of drivers or hazardous situations in real time as well as generates reports on the driving quality for the management of the subsidiaries.

Road transport monitoring system

Since 2017, Gazprom Neft’s production assets have been implementing an IT-based vehicle tracking system to monitor the implementation of obligations relating to the safety of the Company’s road transport contractors. The system analyses information about drivers, vehicles, permits and licenses, reviews data from vehicle tracking devices and makes reports on the driving style similar to those used by large transportation companies, monitoring speed, sudden acceleration or braking. In 2018, the Company continued developing the tracking system, with over 7,000 contractor vehicles being connected to the system and additional barriers introduced to control the access of vehicles and drivers to the Company’s facilities.
Health and safety

The Company’s health protection and disease prevention system is designed to:
> ensure health and well-being of the Company’s employees;
> align an employee’s health condition and physical abilities with the job characteristics and requirements;
> identify and eliminate workplace health hazards;
> raise employees’ awareness about occupational health.

To achieve these goals, the Company undertakes to:
> assess and minimise occupational disease risks;
> ensure safe and hygienic working and living conditions across its field sites;
> implement comprehensive prevention initiatives to reduce disease incidence among employees;
> arrange for medical examinations;
> identify and monitor cardiovascular disease risk groups;
> prevent contagious and non-contagious diseases (vaccination / therapeutic and preventive nutrition);
> develop an emergency medical response framework (first medical aid and evacuation capabilities, first aid training for employees);
> promote healthy lifestyles (including vaccination, healthy living awareness campaigns, alcohol and drug abuse prevention initiatives, insurance activities);
> investigate health-related incidents and analyse disease (disability) incidence.

These activities are governed by the legislation and the Occupation Health Programme corporate standard. To increase responsibility across the supply chain, the Company introduced health protection into contractor management. Among other things, Gazprom Neft controls medical check-ups of contractor employees and makes sure that contractors have an effective emergency medical response system in place.

In 2018, the Company launched a three-year project to create a health protection system designed to prevent or mitigate accidents. The project focuses on identifying employee health risks and bottlenecks for implementing key medical and rehabilitation initiatives.

Protective clothing for the Arctic

Providing employees with protective clothing and personal protective equipment is an important component of the Company’s care about their health and safety. The reporting year saw the Company complete a major project of creating a new uniform for Prirazlomnaya employees. The new hi-tech clothing for offshore operations will ensure protection from extreme cold, wind, rain, sea salt, and open fire. It also comes in bright colours to enhance the safety of personnel working in the harsh Arctic environment.
MAIN FOCUS AREAS

1. Building barriers to prevent exposed employees from accessing production facilities. The Company has established uniform requirements and qualification standards for clinics conducting medical examinations to screen out dishonest counterparties. Gazprom Neft also started developing a local system of automated pre-tour/pre-shift medical check-ups which integrates medical equipment and software. The system allows for an early identification of many diseases and online monitoring of the employee’s condition to detect fatigue, sudden health impairment, or stress. Based on the results, the system can notify the relevant employee, dispatcher, and the doctor.

2. Building barriers to reduce injury severity and provide an effective emergency medical response. The Company consistently improves its resource allocation and trains its employees to provide better aid at each phase of response – from early identification to post-resuscitation care.

3. Building barriers to reduce the likelihood of incidents (occupational hygiene, disease prevention, and promotion of healthy lifestyle). This project focuses on turning healthy living from a formal initiative into employee’s primary need.

Award of the Russian Health and Safety Week

The Company’s Occupational Health System Programme for 2018–2020 won the top prize in the nomination for Advanced Occupational Disease Prevention and Employee Rehabilitation Solutions of the Health and Safety competition held as part of the Russian Health and Safety Week 2018.

The reporting year saw Gazpromneft-Khantos implement an automated pre-trip check-up system. It takes the system 90 seconds to evaluate both standard health indicators (heart rate and blood pressure) and psychophysiological state of employees to minimise the risks of employees reporting for duty in dangerous states (ill health or intoxication).
Environmental safety

Environmental responsibility is one of the key values included in Gazprom Neft’s Corporate Code of Conduct. Gazprom Neft takes a consistent approach to minimising its environmental impact, implementing cutting-edge environmental technologies, employing rational use of resources and best management practices, and developing the best-in-class safety culture and environmental training system for employees.

The company has the following environmental safety objectives:

- reducing environmental footprint and preserving the quality of nature and living environment;
- prevention of environmental damage caused by business activities;
- implementation of best global HSE practices;
- restoration, protection and sustainable use of natural resources, as well as biodiversity conservation.

The Company has an ISO 14001 compliant environmental management system in place. In 2018, an independent auditor confirmed that Gazprom Neft’s system fully meets the ISO 14001:2015 requirements. Certificates of compliance were also issued to Gazpromneft-Sakhalin, Gazpromneft Moscow Refinery, Gazpromneft Omsk Refinery, Gazpromneft – Ryazan Bitumen Binders Plant, Omsk Lubricants Plant, Gazpromneft Moscow Lubricants Plant, Gazpromneft Shipping, and Gazprom Neft Procurement.

Environmental impact assessment (EIA)

The 2018 EIA involving stakeholders covered the construction of a waste collection, accumulation and comprehensive treatment facility at Gazpromneft-Angara’s Ignyalinsky licence block. The EIA also reviewed project documentation for the exploration within the Prirazlomnye field in the Barents (Pechora) Sea and the Kheysovsky licence block in the north of the Barents Sea.
Gazprom Neft uses a risk-focused approach embedded in all of its business processes to ensure environmental safety. The Company ensures continuous environmental monitoring and industrial environmental control. Environmental impacts are measured at all stages of production activities and used as a mandatory input to buttress management and investment decision-making.

Gazprom Neft carefully assesses its current and expected environmental impact taking into account all factors that affect ecosystems, and specific features of such ecosystems. Based on this assessment, the Company implements the best available technologies to mitigate the adverse impact of its operations.

The Company is running a range of key strategic environmental initiatives and a number of programmes and projects dealing with current environmental issues. In 2018, investments in environmental protection totalled ₽19 bn.2

In 2018, excess emissions charges accounted for 57.9% of the total environmental impact fees and resulted primarily from APG flaring, with 78.4% APG utilised in 2018.

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**Cost of environmental services, environment safety and protection**

<table>
<thead>
<tr>
<th>Year</th>
<th>₽ m</th>
</tr>
</thead>
<tbody>
<tr>
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<td>6,159.7</td>
</tr>
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</tr>
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<tr>
<td>2017</td>
<td>5,753.2</td>
</tr>
<tr>
<td>2018</td>
<td>5,753.2</td>
</tr>
</tbody>
</table>

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1 Capital environmental investments were down due to the completion of large-scale projects at the Company’s refineries in 2017.

2 Net of the cost of capital construction, renovation and repair of fixed assets with a positive environmental impact.

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### Air protection

Reduction of air pollutant emissions is one of the Company’s top environmental priorities, with Gazprom Neft putting in place a large-scale programme to upgrade and retrofit its refining facilities, a programme to cut greenhouse emissions, and other environmental initiatives covering the entire production chain.

In 2018, gross emissions totalled 427.9 kt. The y-o-y growth was due to the extensive work as part of new upstream projects, including launch of new oil wells at Gazpromneft-Yamal, development of Gazpromneft-Vostok’s group of fields, new downhole logging and pilot operation projects at GPN-Development and Gazpromneft-Angara.

That said, specific emissions remained flat y-o-y.

By upgrading the existing facilities, Gazprom Neft is able to maintain specific emissions at the 2017 level.
In 2018, the Company continued with the second phase of the technology and environmental upgrades of its refineries, introducing equipment and technologies with lower environmental impact.

The key projects to reduce gross emissions include:
> construction of Gazpromneft Omsk Refinery’s regeneration gas treatment unit for the catalytic cracker;
> piloting of Chlorosorb, a new technology that will enable domestic refineries to recycle chloride and eliminate the use of caustic spent on gas scrubbing;
> construction of a new automatic on-spot loading unit for light products at Omsk Refinery;
> overhaul of the first process chain facilities at Omsk Refinery;
> overhaul of large processing ring facilities at Moscow Refinery.

### Breakdown of gross emissions (kt)

<table>
<thead>
<tr>
<th>Year</th>
<th>Solids</th>
<th>Hydrocarbons (excluding volatile organic compounds)</th>
<th>Carbon monoxide (CO)</th>
<th>Nitrogen oxides (NOx)</th>
<th>Sulphur dioxide (SO2)</th>
<th>Volatile organic compounds (VOC)</th>
<th>Other gases and liquids</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>13.5</td>
<td>57.6</td>
<td>125.9</td>
<td>13.2</td>
<td>46.8</td>
<td>91.5</td>
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<tr>
<td>2015</td>
<td>13.8</td>
<td>55.8</td>
<td>143.7</td>
<td>10.5</td>
<td>96.0</td>
<td>72.6</td>
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</tr>
<tr>
<td>2016</td>
<td>18.4</td>
<td>46.2</td>
<td>173.6</td>
<td>18.0</td>
<td>124.8</td>
<td>88.4</td>
<td>0.7</td>
</tr>
<tr>
<td>2017</td>
<td>10.5</td>
<td>49.4</td>
<td>147.8</td>
<td>17.4</td>
<td>64.4</td>
<td>81.3</td>
<td>1.8</td>
</tr>
<tr>
<td>2018</td>
<td>18.0</td>
<td>56.7</td>
<td>175.3</td>
<td>21.8</td>
<td>71.1</td>
<td>84.6</td>
<td>0.3</td>
</tr>
</tbody>
</table>
Moscow Refinery continued building the Euro+ oil refining unit that will enable it to decommission five small processing ring facilities launched back in 1960s and cut pollution emissions. 2018 saw the Company complete the construction of a closed cycle high-temperature gas disposal system for Euro+. The technology helps eliminate excessive process gas, if any, in a safe and reliable manner through its full incineration in a closed protected fireproof chamber, with a zero impact on atmosphere.

Omsk Refinery completed the construction of a new automatic on-spot loading unit for light products started in 2016. The new unit virtually eliminates the risk of hydrocarbon vapours getting into atmosphere from loaded products and increases process safety. The facility replaced the open tank-car loading gallery with a leak-proof loading rack using vapour condensation technology. The project brought to a close the transformation of the loading system at Omsk Refinery that ships around 70% of petroleum products by rail.

Advanced Biosphere treatment facilities under construction at Omsk Refinery will greatly improve wastewater treatment and cut emissions and discharges. Among other things, the project provides for off-gas treatment in cutting-edge gas convection chambers, reusability of recovered petroleum products, and the use of nitrogen pads in tanks to prevent evaporations.

Ecoinformer

The main webpages of Omsk and Moscow refineries display real-time air and environmental data from the facilities’ sanitary protection zone. At Moscow Refinery, this information is also displayed on an outdoor LED screen installed at the request of local residents. In 2018, Moscow and Omsk refineries became pilot platforms for developing nationwide requirements for industry-specific monitoring systems. The testing results will serve as a basis for government regulations on implementing automated air monitoring systems at all refineries.

In March 2018, the Company donated a mobile environmental laboratory to the Omsk Region Government. The laboratory promptly analyses air quality data collected at industrial facilities and throughout a city and transmits it to supervisory bodies.
GHG emissions

Gazprom Neft supports implementation of the Paris Agreement on Climate Change\(^1\) and the Russian Government’s concept for putting in place a greenhouse gas emissions monitoring and measurement system. The Company fully complies with the national laws on reduction of greenhouse gas emissions\(^2\) and the guidelines on measurement of such emissions\(^3\). Gazprom Neft has in place a corporate standard on GHG emissions control, which was drafted based on the principles contained in applicable Russian laws and international guidelines.

The standard is fully in line with the GHG Protocol Corporate Accounting and Reporting Standard developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), as well as GOST R ISO 14064-1-2007, which are recognised worldwide and do not contradict Russian laws. The standard also incorporates additional recommendations of the IPIECA, API and OGP Petroleum industry guidelines for reporting greenhouse gas emissions and the G4 Sustainability Reporting Guidelines.

Gazprom Neft is building a dedicated system to manage hydrocarbon regulation risks, with GHG emissions assessment as its key element. The Company measures:

- direct GHG emissions from burning of hydrocarbon fuels and substances, facilities operation, and technological losses;
- indirect emissions from consumption of electricity, heat, steam or cooling.

<table>
<thead>
<tr>
<th>Greenhouse gas emissions (mt of CO(_2) equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
</tr>
<tr>
<td>Direct emissions</td>
</tr>
<tr>
<td>Indirect emissions</td>
</tr>
</tbody>
</table>

\(^1\) An agreement signed on 22 April 2016 as part of the United Nations Framework Convention on Climate Change (UNFCCC) to regulate carbon dioxide emissions starting from 2020.


Underground storage for APG utilisation

At Messoyakhaneftegaz, the Company is going to set up APG storage in the gas cap of a neighbouring oil and gas condensate field. This is an unprecedented project for the oil and gas industry, and to carry it out the Company will build a compressor station with a capacity of 1.5 bcm of gas per annum at the Vostochno-Messoyakhskoye field and two multi-well pads with nine reinjection wells at the Zapadno-Messoyakhskoye field. The fields will be connected through an interfield pipeline for transporting compressed gas. This initiative will maximise the efficiency of APG utilisation at Messoyakhaneftegaz. Currently, the APG accumulated as part of crude oil production at Messoyakha fields is used for process needs as fuel for oil heating furnaces and boilers. Transportation of the APG from the Vostochno-Messoyakhskoye field and its injection into the gas cap of the Zapadno-Messoyakhskoye field will make it possible to use the stored gas in the future. This project cannot be implemented at the Vostochno-Messoyakhskoye field, where active oil production takes place, because of its geological structure: the field does not have deposits with properties and space suitable for mass storage. The Company is planning to build the infrastructure using Russian equipment. The construction is scheduled to complete in 2.5 years.

The growth of direct GHG emissions in 2018 was due to an increase in APG flaring and oil refining volumes. The increase in APG volumes came as a result of growing intensity of oil exploration and production.

Gazprom Neft is implementing a programme to increase APG utilisation rates across all of its production assets. The Board of Directors set a goal to reach a 95% APG utilisation rate at the fields with developed gas infrastructure by 2020, and across all of the Company’s assets (including the newly acquired ones) – by 2022.

In 2018, the APG utilisation rate across the Company’s subsidiaries operating in Russia stood at 78.4%, while for mature fields with developed gas infrastructure this indicator was at 92–99% since 2016.
The rise in APG flaring volumes since 2016 was attributable to new projects where the utilisation infrastructure is at the construction stage, which is almost completed at the Archinskaya group of fields, as well as the Southern block of the Priobskoye field and the Novoportovskoye field. The production growth at these fields was the main driver of the increase in APG flaring in 2018.

In total, in 2018 the APG utilisation rate across the Company’s subsidiaries operating in Russia increased by 29.6% y-o-y, which was achieved thanks to:

> Ensuring high utilisation of gas processing equipment;
> Maintaining high APG utilisation at the fields with developed gas infrastructure;
> Launching commercial operation of stage 2 of the comprehensive gas treatment unit (CGTU) at the Novoportovskoye field run by Gazpromneft-Yamal and of the compressor station of the 4th production train at the Eastern block of the Orenburgskoye oil and gas condensate field run by Gazpromneft-Orenburg.

### Climate projects of NIS

NIS is a Serbia-based company that took active part in implementing the European Union’s initiative to incorporate an EU directive on climate into the country’s legislation.

In particular, NIS participated in the meetings held between the Serbian government and the European Commission on monitoring and reporting GHG emissions. The company has a department responsible for monitoring the EU’s policies and regulations, including those in the area of climate change and energy efficiency.

The company’s low carbon strategy will be defined in line with the National Climate Strategy of Serbia, which is currently under development. Still, NIS is already taking a number of steps to monitor and reduce emissions based on the corporate environmental standards and goals.

First, the company plans to assess the impact of climate change on NIS a.d. Novi Sad’s operations, determining the GHG management procedures in accordance with the EU directives and regulations and the volumes of CO₂ emissions. The next scheduled step is for NIS to work out the arrangements necessary for the free allocation of CO₂ emission allowances for the company’s installations that will be participating in the EU ETS. The company made a preliminary assessment of direct CO₂ emissions as well as drafts of monitoring plans for these installations.

NIS runs projects on APG utilisation and renewable energy development. The company constructed amine drive for gas refinement in Elemir, which removes CO₂ from natural gas. This CO₂ is then transported to the Rusanda field and used to raise reservoir pressure and enhance oil yield. NIS has 17 cogeneration power stations that produce electricity and heat using APG.

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1 EU Emissions Trading System.
2 For more information on renewable energy projects, see the Energy Efficiency and Conservation section.
3 Amine gas treatment is used to prepare natural gas and APG for removing liquid components from hydrocarbons. During processing, they are absorbed by solutions of amines (ammonia derivatives), followed by regeneration of the solution and production of a stream of concentrated hydrogen sulphide.
Water resources management

The key areas of the Company’s activities on water resources management include sustainable use, effective wastewater treatment, and prevention of natural water bodies contamination with oil and petroleum products. Gazprom Neft monitors water protection zones, surface and ground waters and evaluates the condition of bed sediments of the surface water bodies in the regions of its operation.

At the refineries, which are active water consumers, the quality of wastewater is monitored twice a day. The condition and level of groundwater at the borders of sanitary protection zones are assessed. The Company’s key projects in this area include the completion of construction of Biosphere biological treatment facilities at its Moscow Refinery and building similar treatment facilities at the Omsk Refinery. Featuring a reverse osmosis unit, the facility provides for multi-stage system of wastewater treatment, including mechanical, physical and chemical, biological, filtration, and ultrafiltration stages. Closed loop water treatment enables us to reuse in production up to 70% of the treated water. In 2018, as part of the project the Omsk Refinery prepared a construction site for treatment facilities and purchased equipment.

In 2018, the Moscow Refinery water treatment facilities reached their design capacity. As a result, the refinery cut river water consumption and significantly lowered the load at municipal treatment facilities. The launch of Biosphere biological treatment facilities at the Omsk Refinery is slated for 2020, with the project’s capex totalling ₽18.6 bn.

### Total water consumption¹ (mcm)

<table>
<thead>
<tr>
<th>Year</th>
<th>From underground sources</th>
<th>Produced water</th>
<th>From surface sources</th>
<th>From public water supply systems</th>
<th>From other water supply systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>44.0</td>
<td>171.0</td>
<td>33.7</td>
<td>1.7</td>
<td>5.9</td>
</tr>
<tr>
<td>2015</td>
<td>41.3</td>
<td>180.8</td>
<td>32.7</td>
<td>1.6</td>
<td>6.1</td>
</tr>
<tr>
<td>2016</td>
<td>32.9</td>
<td>175.1</td>
<td>36.4</td>
<td>2.2</td>
<td>5.9</td>
</tr>
<tr>
<td>2017</td>
<td>26.2</td>
<td>157.1</td>
<td>40.2</td>
<td>2.1</td>
<td>4.6</td>
</tr>
<tr>
<td>2018</td>
<td>36.6</td>
<td>123.5</td>
<td>32.8</td>
<td>1.7</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Company data

¹In line with the revised methodology of recording the volumes of produced water.
OFFSHORE PROJECTS

In developing the first upstream project on Russia’s Arctic Shelf, the Company introduces the most advanced technological solutions to protect the environment, namely, marine resources. There is no direct contact of the well with water at the Prirazlomnaya platform, as the construction is installed on the bottom of the Pechora Sea. The wells that are drilled in the field are located inside the platform, with its foundation serving as a buffer between the well and the sea. Moreover, the equipment installed on the wells is designed to prevent uncontrolled gas or oil blowouts and, if necessary, to block the oil rise in 7 seconds. The oil storage facility is located at the base of the platform, below all other facilities and systems. This design solution sets out additional safety requirements to operate Prirazlomnaya. In order to avoid leakage of gaseous light hydrocarbons, the “wet” method of storage is used in oil storage tanks.

In the reporting year, the Company eliminated contaminant discharges into surface water bodies through upgrading the storm drain at Novorosnefteservis and treating its wastewater at the treatment facilities.

“Treatment using a membrane bioreactor is more expensive than other options, but only this technology is really effective for domestic and industrial wastewater, especially in cities, because it helps significantly increase the performance of treatment facilities and make them smaller. There are only a few applications of this technology in Russia, with none of them in the refining industry.”

Alexander Kuznetsov
Associate Professor at the Biotechnology Department of Mendeleev University of Chemical Technology of Russia

Biosphere biological treatment facilities of the Moscow Refinery were named the best infrastructure project by the Eco Best Award

In 2018, the project was recognised for its environmental, energy and resource saving efforts and became one of the winners of the Eco Best Award 2018. The jury awarded the prize of the Best Infrastructure Project to the new biological treatment facilities. It has become the only environmental project to be shortlisted for the Platts Global Energy Awards 2018 as the Technology Project of the Year.
### Waste management

**903.4 KT**

of waste recycled and decontaminated

Most of waste is drilling sludge resulting from the production process. Improving the efficiency of its processing is one of the Company’s top environmental priorities. The corporate concept of drilling waste management seeks to reduce the environmental risks and unify waste management requirements. The concept takes into account the infrastructure of the fields under development, existing technologies for drilling waste disposal, technical and economic indicators, methods for well construction, and waste injection into the formation.

The Company uses advanced drilling rigs equipped with a system for liquid treatment of drilling waste, which maximises the reuse of drilling mud and process water in production. The remaining drilling waste, which includes used drilling mud, drilling sludge and wastewater, is classified as hazard class 4, or low-hazard waste. Waste is collected in mud pits reliably protecting the soil and groundwater from possible contamination due to its waterproofing properties.

The Company spares no effort to reduce waste generated by oil refining and transportation. Gazprom Neft disposes of legacy production waste accumulated at the facilities during the decades of the Soviet time. During the five years of work, the Moscow Refinery has eliminated the waste accumulated before 1991, along with over 180 kt of oil-containing waste, while releasing and rehabilitating 15 ha of land. Slavneft-YANOS disposed of 19 kt of hazardous industrial waste during nine years of the programme (7.6 kt in 2018) which is scheduled for completion by 2024.

The Company cleans areas not only under the corporate environmental programmes. Gazprom Neft’s employees initiate and carry out volunteer projects. The Company continued cleaning out Novy Port and Mys Kamenny villages. Gazpromneft-Yamal’s volunteers lifted six sunken barges and collected 150 tonnes of scrap metal using bulldozers and excavators.

In St Petersburg, Gazprom Neft retail network jointly with the Municipal Council of Pesochny village and the Petrov National Medical Research Centre of Oncology set up the environmental quest called The Clean Games, which facilitated the collection of over 2.5 t of garbage in St Petersburg’s Kurortny District.

In 2018, the volumes of waste sent for disposal and neutralisation reached 903,430 t, accounting for 86.8% of total waste generated throughout the year.

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**Green is new black**

In November 2018, Gazpromneft retail network launched The Green is New Black environmental project to develop a culture for proper disposal of old car tyres. The project tackles the problem of unauthorised landfills of old tyres, which is pressing for many regions. In St Petersburg and Yekaterinburg, drivers could bring used tyres to the Company’s filling stations. Within the project, over 7 t of tyres was collected and transferred for recycling into crumb rubber for coatings of playgrounds and athletic facilities. The crumb rubber will also be used for building a recreational area in the village of Pesochny in St Petersburg’s Kurortny District and to improve one of the social facilities in Yekaterinburg.
Land and vegetation protection

Oil production and refining are potentially hazardous industrial operations. However, ongoing monitoring of equipment reliability and new technologies help the Company minimise the risk of soil contamination with oil or petroleum products.

The Company is running a targeted programme to ensure pipeline reliability and the Clean Territory project, which also seeks to reclaim disturbed lands. Under the programme, 400 km of pipes is replaced every year.

The Company is developing diagnostic technologies that reduce the number of failures and improve the economic efficiency of programmes. The innovative methods in use include non-contact magnetometric diagnostics which detects localised corrosion by registering magnetic fields, as well as UAV monitoring the technical condition of oil pipelines.

Gazprom Neft reclaims disturbed and contaminated land and mud pits by implementing cutting-edge pipeline technologies and land rehabilitation solutions based on prevalent soil properties and climatic conditions.

In 2018, the Company launched the Green Seismic 2.0 – project based on seismic exploration technology preserving forested areas. The traditional approach requires building wide forest clearings to allow the passage of heavy all-terrain vehicles, with the width of the receiver lines of 4 m and the source lines of 4–5 m.

Green seismic survey is carried out using wireless recording equipment, which can be installed with the help of lightweight machinery. This enables us to significantly narrow down clearings or not to create them at all. The Green Seismic method introduced by the Company in 2016 reduced the width of the receiver lines\(^1\) to one metre. At the end of 2017, Gazprom Neft launched a new stage of the Green Seismic 2.0 project to narrow the width of the source lines to 1–3 m. Each such project saves 450,000 trees\(^2\).

The Green Seismic 2.0 project will not only contribute to preserving forested areas, but will also reduce the number of heavy all-terrain tracked vehicles, fuel consumption and emissions into the atmosphere, while improving industrial safety. In 2016–2018, the technology was rolled out at Gazpromneft-Noyabrskneftegaz, Gazpromneft-Khantos, Slavneft-Megionneftegaz, and Gazpromneft-Vostok. It saved 1,800,000 trees.

Clean Territory results in 2018

- \(5,000\) KM diagnosed
- \(5,300\) KM monitored in terms of corrosion rate
- \(3,700\) KM protected with corrosion inhibitors
- \(175\) KM upgraded
- \(8.6\) KM overhauled

### Green Seismic 2.0:
seismic exploration technology saving trees from cutting

\[1.8\] MILLION TREES SAVED

The Clean Territory project on the Company’s website

\(^1\) The receiver and source lines are transverse and longitudinal lines featuring receiver points to record waves.

\(^2\) The average area of 330 sq km was used for calculation, with the length of receiving lines of 1,175 linear km and forest coverage of 80%.
Biodiversity preservation

Gazprom Neft launches a narwhal study programme (report by Channel One Russia)

The results of Arctic Biodiversity Preservation Programme

Biodiversity preservation programmes are rolled out across all of the Company’s Russian assets. Ensuring environmental safety in offshore and onshore projects is the Company’s absolute priority. Its environmental initiatives aim to maintain the natural balance of fragile Arctic ecosystems and preserve the region’s biodiversity.

To evaluate its impact on various ecosystems, the Company maintains an ongoing environmental monitoring within its footprint. Some of the territories that the Company monitors in the Prirazlomnaya platform area include the coasts of Dolgy, Matveyev, Golets, Bolshoy Zelenets, Maly Zelenets and Vaygach islands. The monitoring covers surface seawater and sea ice, biological resources, bottom sediments and atmospheric air.

The 2018 research proved that the monitored sea area was in normal condition, with no deviations identified in coastal ecosystems.

In Russia’s Arctic, Gazprom Neft runs an open-ended biodiversity preservation programme using some of the animal and plant species that are endemic to the Arctic marine ecosystems as indicators of their sustainability. Developed jointly with the leading Russian and global experts, this programme seeks to meet the requirements of major national and international biodiversity preservation regulations, agreements and conventions.

In 2018, Gazprom Neft launched a large-scale programme to get insights into the life of narwhals, a rare Arctic species featuring on the IUCN Red List. Up to now, there has been no comprehensive research on this animal. This unique project will help study the condition of the narwhal population in the western sector of Russia’s Arctic Zone, determine the number and distribution of the species, and develop a conservation programme for narwhals and their habitat.

In the Sakhalin island area, the Company monitors the Sea of Okhotsk ecosystem. Since 2017, Gazprom Neft takes part in an industry-wide project aimed at monitoring and conserving the gray whale population. The population of gray whales migrating between the Sea of Okhotsk and southern Korea is one of the smallest on our planet. In the early 1980s, these animals nearly went extinct and have since been closely watched by environmentalists. Oil and gas companies take measures to reduce the negative impact on the gray whale population and ensure its conservation and replenishment.

Environmental support of offshore projects

- Environmental monitoring and study of marine and coastal ecosystems
- Biodiversity preservation across the Company’s footprint
- Research on walrus, gray whale, bird and fish faunas
- Reproduction of aquatic bioresources
As a pioneer of Arctic Shelf development and a responsible subsurface user, Gazprom Neft considers preservation of the unique Arctic nature for future generations to be one of its main environmental priorities. Extensive research shows that, given constant control, oil and gas infrastructure and nature can coexist in a safe way.

### Arctic Biodiversity Preservation Programme

As a pioneer of Arctic Shelf development and a responsible subsurface user, Gazprom Neft considers preservation of the unique Arctic nature for future generations to be one of its main environmental priorities. Extensive research shows that, given constant control, oil and gas infrastructure and nature can coexist in a safe way.

![Pechora Sea Environmental Atlas](image)

18,500 km² - The Company’s Area of Responsibility within the Prirazlomnaya platform footprint

9 marine monitoring stations

8 years of research

600 macrozoobenthos species

6 zooplankton species

19 mammal inhabit the Pechora Sea species

30 fish species

The research conducted by the companies in the industry underlies the measures aimed at protecting gray whales, which include the use of ships with lower noise levels, vessel speed limits, and routes that are removed from whale feeding grounds. The action plan is subject to an independent evaluation by the Western Gray Whale Advisory Panel (WGWAP) established by IUCN. WGWAP consists of American, Canadian and Russian scientists specialising in marine mammals and hydroacoustics.

According to the 2018 preliminary monitoring results, the Company’s operations do not affect the population of gray whales.

The reproduction of aquatic bioresources programme is a significant element of field development projects.

Gazprom Neft subsidiaries operating in the Arctic contribute to breeding and reproduction of rare fish species in the northern seas and rivers. Millions of mukun fingerlings are released into the Ob, Konda and Severnaya Sosva rivers. Hundreds of thousands of captive-bred Atlantic salmon inhabit the waters of the Northern Fishery Basin (the Vyg, Suma and Keret rivers). In 2018, the Company’s facilities released 20 million fingerlings of commercially valuable fish species into the water bodies. During the same year, the Company signed an agreement with the Government of the Yamal-Nenets Autonomous Area to expand its programme aimed at preserving aquatic biological resources and their habitat in the region. During 2018, Gazprom Neft also released 25,000 of young Atlantic salmon into the Keret River (the Republic of Karelia) that flows into the White Sea.
We run an extremely complex crude oil extraction project, and we fully recognise our responsibility to maintain the ecological balance. Therefore, the Company takes action in several areas: we deploy state-of-the-art technology that reduces the environmental impact of our operations, arrange continuous environmental monitoring, and implement the biodiversity preservation programme both in the Company’s area of responsibility and in other Russian regions.

Shaukat Bakiyev
Head of HSE, Offshore Development Division

**Pechora Sea Environmental Atlas**

Based on its broad research into the Pechora Sea flora and fauna, Gazprom Neft developed an Environmental Atlas of the area. The 140-page document contains seven years’ worth of hydrometeorological, oceanographic and hydrochemical research and data on the distribution of aquatic organisms, sea mammals and birds in the Pechora Sea and its coastlands. Most of these data are unique and have never been published before.
ENERGY CONSUMPTION AND EFFICIENCY

Gazprom Neft’s Energy Policy lies at the heart of the ISO 50001:2011 compliant energy management system implemented at the Company’s facilities in stages since 2012. In 2018, the Company continued to certify its facilities for compliance with ISO 50001, with certificates issued to Gazpromneft-Yamal and Messoyakhaneftegaz, and recertification completed at Gazprom Neft’s Upstream Division and five subsidiaries – Gazpromneft-

Noyabrskneftegaz, Gazpromneft-Muravlenko, Gazpromneft-Khantos, Gazpromneft-Vostok and Gazprom Neft Orenburg. Slavneft-Megionneftegaz successfully passed the first inspection audit. The energy management system is running at the Downstream Division’s facilities, such as NIS (the Refining Division), Gazpromneft Omsk Refinery, Gazpromneft Moscow Refinery, Slavneft – YANOS and Omsk Lubricants Plant, a branch of Gazpromneft – Lubricants.

Energy saving and energy efficiency management structure

MANAGEMENT BOARD
> Approval of Gazprom Neft’s Energy Policy;
> Approval of the corporate Energy Saving and Energy Efficiency Improvement Programme and review of its performance;
> General management of energy saving and energy efficiency improvement initiatives;
> Approval of the target model for the energy management system, general management of its development and assessment of its performance.

DIVISION’S ENERGY DEPARTMENTS
> Development and update of the energy saving programme, its KPI, goals and objectives;
> Management of the energy saving programme;
> Control over the energy management system;
> Management of the Power Competence Centre (Downstream Division).

FACILITIES’ ENERGY MANAGERS AND WORKING GROUPS
> Implementing the energy saving programme;
> Looking around for innovations;
> Monitoring the implementation of the programme’s technical and organisational measures.

MANAGING ENERGY CONSUMPTION AND EFFICIENCY

KEY DOCUMENTS
> Gazprom Neft’s Energy Policy;
> Downstream Division’s Technical Policy on Energy Efficiency;
> Energy Policy Related to Field Development and Oil and Gas Production.

PRIMARY ENERGY SAVING GOALS
> to boost operational efficiency while maintaining or improving reliability, safety and productivity;
> to mitigate environmental impacts;
> to reduce consumption of non-renewable energy.

KEY STAKEHOLDERS
The Company’s shareholders, investors, executives and employees.
Upstream Division

The Upstream Division’s energy efficiency programme covers technical and organisational measures. When it comes to technical measures, the key driver for improving energy efficiency is the production equipment upgrade. Of all production operations, mechanical liquid lifting consumes the biggest portion of energy. The Company optimises well performance by switching to short-term or intermittent operation and introducing energy efficient downhole equipment. Other technical improvement measures are the upgrade of pumps, use of energy efficient rotors and installation of variable-frequency drives in the reservoir pressure maintenance, oil preparation and pumping systems.

The Company achieved significant energy savings through well interventions to reduce the amount of produced water and use water injection techniques. The key organisational measures include energy audits and the implementation of an energy efficiency monitoring system and IT projects to support energy saving and energy efficiency processes.

Power consumption per tonne of produced liquid, the key energy efficiency metric, was 28.39 kWh/t.

In addition to implementing its Energy Efficiency Improvement Programme, the Company shut down low-margin wells and optimised the operation of oil pumping equipment at central gathering facilities to cut specific power consumption.

Equipment optimisation

2018 saw the overhaul of high-pressure multistage centrifugal ring-section pumps with a performance improvement of 3%. Slavneft-Megionneftegaz successfully tested electric submersible pump units with high-performance EC motors, with energy consumption at pilot wells falling by 25–30%. In 2019, the Company plans to install 25 similar units across the Division.

Power consumption in Upstream Division1

<table>
<thead>
<tr>
<th>Metric</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power consumption (purchase + generation), MWh</td>
<td>6,177,164</td>
<td>6,419,919</td>
<td>6,298,276</td>
<td>10,121,321</td>
<td>9,002,159</td>
</tr>
<tr>
<td>Y-o-y change, %</td>
<td>2.4</td>
<td>4.0</td>
<td>−1.9</td>
<td>61.0</td>
<td>−11.0</td>
</tr>
<tr>
<td>Heat consumption [self-generated and purchased from third-party suppliers], GJ</td>
<td>1,064,758</td>
<td>982,015</td>
<td>996,644</td>
<td>1,500,839</td>
<td>1,730,723</td>
</tr>
<tr>
<td>Y-o-y change, %</td>
<td>13.0</td>
<td>8.0</td>
<td>1.0</td>
<td>51.0</td>
<td>15.0</td>
</tr>
</tbody>
</table>

1 Starting from 2018, the perimeter of consolidated data includes Gazpromneft-Yamal, Messoyakhaneftegaz, Upstream Division of Gazprom Neft, Gazpromneft-Noyabrskneftegaz, Gazpromneft-Khantos, Gazpromneft-Vostok, Gazpromneft-Orenburg and Slavneft-Megionneftegaz. The 2017 and 2018 data include power consumption indicators of these companies. At Upstream Division of Gazprom Neft, power consumption in 2017 (excluding Gazpromneft-Yamal, Messoyakhaneftegaz and Slavneft-Megionneftegaz) stood at 6,064,268 MWh, while heat consumption amounted to 1,324,180 GJ.
**Downstream Division**

Key activities under the Downstream Division’s Energy Saving and Energy Efficiency Improvement Programme in the reporting period include:

- revamp of process furnaces and technical upgrade of boilers (enhancement of flue gas heat utilisation);
- optimisation of compressor equipment operations and upgrade of lighting systems;
- optimisation of heat supply layouts, recovery of heat from production processes (use of thermal power from product flows for heating up feedstock and other process flows).

Energy savings under the energy saving and energy efficiency programme amounted to 3.3 PJ (petajoules) or 3,347 TJ.

Implemented as part of a large-scale refinery upgrade exercise launched by Gazprom Neft back in 2008, the Energy Saving and Energy Efficiency Improvement Programme made a significant contribution to the Downstream Division’s performance.

Under the Programme, the Company builds new modern units, implements automated control systems and replaces outdated production units at the refineries. In 2018, economic benefits from energy saving initiatives at Omsk and Moscow refineries amounted to ₽447.4 m, exceeding the initial targets by 50%. At Omsk Refinery, impressive results came on the back of a new automated system for cleaning the heating surfaces of furnaces at the facility for deep conversion of fuel oil, optimisation of process furnaces, and installation of higher-performance insulation in the main steam pipelines. At the same time, Moscow Refinery saw systemic optimisation of furnace operation modes at the facilities for hydrotreatment of cat cracking gasoline, bitumen and hydrogen production, and oil distillation. On top of that, compressed air supply schemes at production facilities were optimised and the upgrade of heat and steam condensate equipment was completed. In 2018, the Company implemented a total of 25 energy saving initiatives at Omsk and Moscow refineries.

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**Energy savings in the Downstream Division in 2018**

- 170,400 GCAL of heat
- 50,900 T of natural fuel
- 9.3 M KWH of electric power
Power purchased\(^1\) by the Downstream Division

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased power, MWh</td>
<td>3,262,669</td>
<td>3,340,550</td>
<td>3,400,210</td>
<td>3,236,805</td>
<td>3,395,831</td>
</tr>
<tr>
<td>Purchased heat, GJ</td>
<td>16,581,709</td>
<td>16,081,895</td>
<td>15,186,997</td>
<td>15,531,129</td>
<td>16,779,175</td>
</tr>
</tbody>
</table>

Energy intensity index at the Company’s refineries\(^2\)

<table>
<thead>
<tr>
<th>Refinery</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omsk Refinery</td>
<td>117</td>
<td>114</td>
<td>110</td>
<td>107</td>
<td>106</td>
</tr>
<tr>
<td>Moscow Refinery</td>
<td>122</td>
<td>114</td>
<td>113</td>
<td>111</td>
<td>111</td>
</tr>
<tr>
<td>YANOS</td>
<td>108</td>
<td>108</td>
<td>107</td>
<td>105</td>
<td>103</td>
</tr>
<tr>
<td>Pančevo Refinery [Serbia]</td>
<td>126</td>
<td>122</td>
<td>118</td>
<td>113</td>
<td>111</td>
</tr>
</tbody>
</table>

Specific energy consumption (kg of fuel equivalent / t)\(^3\)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>134.6</td>
<td>132.4</td>
<td>137.2</td>
<td>143.0</td>
<td>145.0</td>
</tr>
</tbody>
</table>

**CLEAN ENERGY**

Gazprom Neft promotes renewable energy generation. In 2018, Omsk Refinery launched a pilot project to build the Downstream Division’s first solar power plant with an installed capacity of 1 MW. Subject to the satisfactory performance of the pilot plant, the Company will consider an increase in its capacity to 20 MW in 2022.

NIS runs projects on the use of geothermal energy, planning to build power plants based in the geothermally active areas in the northern part of Serbia.

NIS also takes part in a joint venture aimed at the construction of Plandiste wind park comprising 34 wind generators with a total capacity of 102 MW and expected annual output of 212 GWh of electrical power. The wind park operation will reduce emissions by 332 kt of CO\(_2\) equivalent per year.

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\(^1\) Excluding volumes transferred to third parties.

\(^2\) Calculated in line with the methodology provided by Solomon Associates. Energy Intensity Index (EII) compares actual energy efficiency for a refinery with the “standard” energy efficiency for a refinery of similar size and configuration, showing the ratio of a facility’s actual energy consumption to the standard energy consumption. The lower the EII is, the higher the facility sits on the energy efficiency scale.

\(^3\) Specific energy consumption growth came on the back of greater conversion rate.
Targets for 2019

**HEALTH AND SAFETY**

- reduction of the specific fatal accident frequency rate by 18% as compared to the 2016–2018 average;
- reduction of the specific accident rate by 5% as compared to the 2016–2018 average;
- reduction of the specific rate of road traffic accidents by 10% as compared to the 2016-2018 average.

**ENVIRONMENT**

- meeting the specific air pollutant emissions targets;
- meeting the specific GHG emissions targets;
- increasing the percentage of waste sent for disposal and neutralisation;
- reducing the share of excess emissions charges in the total amount of environmental impact fees;
- continuous work on the medium term target of increasing the APG utilisation rate to 95%;
- further implementation of corporate environmental initiatives.

**ENERGY EFFICIENCY AND SAVING**

**KEY ENERGY SAVING MANAGEMENT IMPROVEMENT OBJECTIVES:**

- external inspection audits of the energy management system in all subsidiaries of the Upstream Division to confirm compliance with ISO 50001;
- personnel training as part of the competency enhancement initiatives;
- improvement of the Company’s by-laws on energy saving and energy efficiency;

**Upstream Division**

- implementation of energy saving and energy efficiency improvement initiatives in 2019–2021;
- planned energy savings of 619 m kWh;
- meeting the specific power consumption targets set for the Upstream Division in 2019 (24.57 kWh/t of liquid);

**Downstream Division**

- implementation of energy saving and energy efficiency improvement initiatives in 2019–2021;
- economic benefits of ₽ 1,635.9 m.
REGIONAL POLICY AND DEVELOPMENT OF LOCAL COMMUNITIES

THE COMPANY’S SUSTAINABLE DEVELOPMENT IS INSEPARABLE FROM THAT OF ITS REGIONS OF OPERATION. BOOSTING LOCAL ECONOMIES AND IMPROVING THE QUALITY OF LIFE ACROSS LOCAL COMMUNITIES ARE AT THE CORE OF GAZPROM NEFT’S PLANNING AND EXECUTION.
Gazprom Neft’s personnel allocation by region, (headcount as at the end of 2018)

98% SHARE OF THE COMPANY’S DOMESTIC SUPPLIERS

20 REGIONS supplied by the Company’s road construction materials

46 SOCIAL AND ECONOMIC PARTNERSHIP AGREEMENTS

800 ₽ BN of tax payments and customs duties in 2018

6.8 ₽ BN of social investments in 2018

Gazprom Neft operates in 30 regions of Russia¹, six CIS and six non-CIS countries. As one of the largest Russian employers and taxpayers, Gazprom Neft contributes greatly to the development of regions across its geographies as an investor, supplier of quality petroleum products, buyer of import-substituting and high-tech products manufactured locally, initiator of and participant in environmental activities. In partnership with stakeholders, the Company implements a social investment programme called Home Towns.

¹ Excluding the regions where the Company only sells its products.
Ensuring environmental safety and minimising environmental impact;
cooperating with regional and municipal governments to encourage sustainable
development of local communities and to improve the quality of life;
creating a competitive environment in regional labour markets;
facilitating a favourable financial, economic and legal climate
for the Company’s operations;
fostering cooperation with stakeholders;
promoting information transparency for all stakeholders.

Improving the quality of life across the Company’s regions of operation

Alexander Dybal, Member of the Management Board,
Deputy CEO for Corporate Communications

Regional government agencies and municipal authorities, the Company’s employees
and their families, local communities, shareholders and investors, non-profit and public
organisations, suppliers, customers
The Company plans and implements the regional policy in conjunction with the regional development objectives and programmes. We build Home Towns social project portfolio in collaboration with regional authorities, NGOs, local residents and our own employees. This helps us go beyond mere sponsorship to spearhead positive changes and channel our resources for tackling the most pressing issues.
REGIONAL DEVELOPMENT INITIATIVES

Road quality improvement

Gazprom Neft introduces efficient solutions for transport infrastructure to construct high-quality and long-lasting roads. Under agreements with regional governments, the Company produces and supplies bitumens tailored to specific climatic and operational conditions of every region. In 2018, seven new regions joined the programme, namely St Petersburg, the Amur, Leningrad, Moscow and Rostov regions, and the Krasnodar and Primorye territories. The programme now encompasses 20 regions.

2018 FIFA World Cup

Gazprom Neft supplied bitumens to upgrade the roads in St Petersburg in the run-up to the 2018 FIFA World Cup. The Company produced polymer modified asphalt cement and docking tapes that were used in the overhaul of the key transport facilities of St Petersburg, including Nevsky Prospect, roads leading to Saint Petersburg Stadium, Betancourt Bridge near Serny Island, etc. The cement is designed to fit the climate conditions of the North-Western region and the traffic.

Science and industry development

The Company promotes scientific and industrial development of the regions by supporting the industrial clusters. As part of the regional development strategy and a project to set up a petrochemical cluster, the Company continued the construction of the oil refining catalyst and needle coke production plant in the Omsk Region in 2018. This will be the first Russian plant to produce needle coke, a strategic material for the steel-making, nuclear, chemical and space industries.

The Company’s Technopark in the Omsk Region is a unique platform that focuses on the development and testing of digital solutions for software import substitution and industrial automation. Through the Technopark, the largest one east of the Urals, the Company contributes to the implementation of the Digital Economy in Russia government programme in Omsk. Using the Technopark establishment, Gazprom Neft awards grants to support promising initiatives and provides the young developers with computer workstations and expert assistance. The field tests of new solutions are performed at Omsk Refinery and other facilities of the Company. In 2018, the Company introduced a co-working space for the developers where they can join their efforts using the Technopark infrastructure.
Import substitution

In accordance with its Innovative Development Programme, Gazprom Neft is committed to teaming up with partners that provide innovative solutions in the areas of the Company’s strategic interest. The Company steadily increases procurement share of Russia-made products, thus supporting the drive to create new products. The Company’s goals and targets in this area are in line with regions’ and the industry’s import substitution plans. Gazprom Neft and the governments of Tomsk and Tyumen regions signed a Roadmap on the Expanded Use of the Hi-Tech Products (including import substitutes) produced by the regional companies. By the end of the year, more than 85 companies from the Tyumen Region and over 30 companies from the Tomsk Region joined the Company’s supplier pool.

The Company implements the initiative to supply lubricants and technical fluids to regional utilities and industrial companies. Gazprom Neft produces import substitutes that both are better priced and meet the requirements of the world’s leading equipment manufacturers. The regional companies are also provided with technical and service assistance. With the Moscow and Amur regions and the Primorye Territory having joined in 2018, the regional governments participating in the programme totalled 17.

“Import substitution of key digital transformation tools is only one step. We aim to get ahead of imports.”

Rustem Mufteev
General Director of Avtomatika-Servis, the operating company of the TechnoPark
HOME TOWNS PROGRAMME

In 2012, Gazprom Neft chose to combine all its social investment initiatives into a single umbrella programme called Home Towns, shifting focus from targeted support towards a social investment approach ensuring consistent improvement of living standards across the Company’s footprint. Today, this is one of the most successful and popular business initiatives for the development of local communities in Russia.

OBJECTIVES:
> building basic social infrastructure in the regions of operation;
> making comprehensive urban improvements;
> developing education, culture and sports;
> supporting creative industries;
> promoting science amongst the youth.

TOOLS:
> social and economic partnership agreements with authorities;
> the Company’s own initiatives;
> targeted corporate charity;
> volunteering support;
> grant competitions.

ASSESSMENT OF SOCIAL INVESTMENTS
Social projects are subject to review at each stage of a yearly cycle.

Social projects’ yearly lifecycle

1 CONTEXT REVIEW
- regional development monitoring;
- identification of pressing social issues;
- consideration of potential projects to address these issues;
- assessment of the Company’s current initiatives for efficiency and relevance;
- stakeholder engagement opportunities.

2 PROJECT SELECTION FOR THE REPORTING PERIOD
- SELECTION CRITERIA
  > alignment with the Company’s strategic priorities;
  > social relevance for the region and alignment with stakeholder interests/needs;
  > potential for systemic transformation;
  > stakeholder involvement in the development and implementation;
  > expected effect;
  > uniqueness.

3 BUILDING A REGION-SPECIFIC PROJECT PORTFOLIO
Development and approval of region-specific social investment programmes.

4 PROGRAMME MONITORING AND ADJUSTMENT AS NECESSARY
MONITORING TOOLS
- opinion polls and expert surveys;
- public hearings and meetings with residents;
- feedback collection at rodnyegoroda.ru;
- online votings / open contests for residents.

5 PERFORMANCE ASSESSMENT
Following the assessment, the top-performing projects are included in the best practice library with a view to adapting and rolling them out to other regions. The assessment results are discussed with stakeholders and factored into the social investment plan for the next calendar year.

Creative industries refer to activities that have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.
Home Towns outcomes

“Today, Home Towns is a community of those who care.”

Alexander Dybal
Deputy CEO for Corporate Communications

The Company’s social investments (₽ m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>4,543.9</td>
</tr>
<tr>
<td>2015</td>
<td>3,966.0</td>
</tr>
<tr>
<td>2016</td>
<td>4,107.3</td>
</tr>
<tr>
<td>2017</td>
<td>4,312.9</td>
</tr>
<tr>
<td>2018</td>
<td>6,787.0</td>
</tr>
</tbody>
</table>

HOME TOWNS IN QUESTIONS AND ANSWERS
Deputy CEO for Corporate Communications, speaks about the Home Towns outcomes

ABOUT THE PROGRAMME
We believe that support of projects spanning a broad spectrum of public interests can improve the quality of life. This is why our efforts target such areas as access to culture and sports, urban infrastructure, aid to young talent, and support of social enthusiasts’ improvement initiatives.

ABOUT PROJECTS
In 2018, the Home Town’s portfolio combined some large-scale national and international projects run annually and a variety of smaller local volunteer campaigns, all of which are vital for regional development.

ABOUT THE APPROACH
Our investments in creative and socially important projects set stage for a sustainable and comprehensive development across our footprint, and their positive outcomes encourage people to take part in new projects running independently of Home Towns.

When we were launching Home Towns in 2012, we sought to transition from conventional sponsorship and charity to a social investment format. Our experience shows that was the right choice. We would not have been able to make changes we see in our regions of operation without a massive support and engagement of local communities.

ABOUT THE FUTURE
In 2019, Home Towns will focus on digital communication formats. We will increasingly rely on two-way communications and cutting-edge tools to engage people in social life, and place a stronger emphasis on online education, exchange of hands-on knowledge and building horizontal ties. A good example of such interactions is the social investment forum where volunteers, grantees and programme partners can meet and share their experience and best practices. Today, Home Towns is truly a community of those who care.

ABOUT LEADERS
Home Towns is also a massive volunteer movement driven by local activists, programme partners and by now over 4,700 Gazprom Neft employees. All of them make personal contributions to improving the towns where they were born and raised, or where they moved to work and live with their families.

In 2018, active volunteers, winners of Gazprom Neft grants, and the Company’s partners in key projects became the first ambassadors of Home Towns. Programme ambassadors are people with a proven social track record, leaders capable of building a creative and engaging environment to support further transformation. This goal is similar to the one that we set ourselves in corporate development as we seek to establish new leadership in business. Unlocking your own potential is only half the battle. You cannot fully succeed without helping others fulfil themselves to the best of their ability.
Social and economic agreements

As part of its social and economic agreements with regional governments, Gazprom Neft invests in building and upgrading local infrastructure, while also providing charitable assistance and supporting indigenous northern minorities.

In 2018, the Company put into effect social and economic agreements with governments across 26 Russian regions and 20 municipalities. In furtherance of these agreements, we made ₽ 4.3 bn worth of investments in social projects.

<table>
<thead>
<tr>
<th><strong>ORENBURG REGION</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; repairing and landscaping kindergartens in Samorodovo town and Berdyanka, Kuvay and Ivanovka villages;</td>
</tr>
<tr>
<td>&gt; repairing schools in Perevolotsky, Samorodovo, Chkalov towns and Sudbodarovka, Kuvay and Platovka villages;</td>
</tr>
<tr>
<td>&gt; repairing community centres in Karavanny town and Pretoriya village.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>TOMSK REGION</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; repairing the central stadium in Parabel village;</td>
</tr>
<tr>
<td>&gt; repairing a school in Kargasok village.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>YAMAL-NNENETS AUTONOMOUS AREA</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; constructing the Yamal-Arena multi-purpose sports facility in Salekhard;</td>
</tr>
<tr>
<td>&gt; creating a public garden in Krasnoselkup village;</td>
</tr>
<tr>
<td>&gt; constructing residential houses in Novy Port village.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>KHANTY-MANSI AUTONOMOUS AREA – YUGRA</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; constructing a 120-apartment house in Khanty-Mansiysk;</td>
</tr>
<tr>
<td>&gt; constructing a covered ice hockey pavilion in Novoagansk settlement;</td>
</tr>
<tr>
<td>&gt; creating a public garden in Elizarovo village;</td>
</tr>
<tr>
<td>&gt; establishing playgrounds in Repolovo, Sibirsky and Batovo villages;</td>
</tr>
<tr>
<td>&gt; repairing schools in Sibirsky and Krasnoleninsky villages.</td>
</tr>
</tbody>
</table>

Gas supplies to Novy Port

In 2018, Gazprom Neft entered into a supplementary agreement to the social and economic partnership agreement with the government of the Yamal-Nenets Autonomous Area to build an 8.7 km gas pipeline with a capacity of about 2,000 m³/h in Novy Port. The boiler house, boarding school, fish factory, hospital and kindergarten are to be connected first. The transition of diesel-powered utilities to gas will significantly cut costs for generating electricity and heat, and reduce tariffs for consumers.
Corporate volunteering

Volunteering is the backbone of the Company’s Home Towns programme. Overall, the Company saw some 4,773 employees come up with their own ideas, team up with other volunteers or launch their own projects as part of the dedicated corporate contest. In 2018, the volunteering contest received 157 applications, with 84 of them put into action and supported by the Company. Its grant fund totalled ₽ 4.4 m.

In addition to implementing their initiatives, corporate volunteers can develop teamwork and project management skills.

**KEY VOLUNTEERING PROJECTS IN 2018:**

- **partnership with the Anton’s Right Here social habilitation centre** for adult autists. The Company’s employees offer comprehensive support, including crafting souvenirs together with the centre’s students over the year. These are sold at the Christmas charity auction and fairs in Gazprom Neft’s offices;
- **cooperation with the Raoul charity foundation.** Together with the foundation Gazprom Neft’s volunteers provide alumni of St Petersburg and Leningrad Region orphanages and boarding schools with career and welfare guidance and help them adapt to the new social environment. In 2018, 181 alumni received support and more than 80 found a permanent or temporary job;
- **Blood Donor Day.** In 2018, 1,494 people took part in Gazprom Neft’s corporate blood donation initiatives;
- **mutual aid fund.** Since 2010, the fund has been providing aid to Gazprom Neft’s employees in hardship.

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**Home Towns forum**

In 2014, Gazprom Neft kicked off a Home Towns social investment forum, the Company’s central annual social event attended by Russian and foreign experts, partners, grantees and volunteers. Over the five years, the forum has evolved into an international platform to share experience and discuss hot trends in regional development and social projects. The 2018 forum focused on the role of business in social transformation. In the run-up to the event, the Company staged the first two-day training programme for the best volunteers and grant winners. Its key themes were community building and the role of communications in promoting social projects.

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1 Habilitation is a set of medical and/or social initiatives to help the disabled adapt to social environment or a specific activity.
Gazprom Neft’s corporate volunteering programme

- 4,773 employees volunteered
- 1,494 employees donated blood in 2018
- >350 volunteering initiatives organised in 2018
- 84 employee initiatives implemented as part of the volunteering contest in 2018

Our volunteers are enthusiastic and caring people who make significant contributions to sustainable development of regions where they live and work.

Grant competition of social projects

- 602 applications submitted for the Company’s grant competition in 2018
- 118 projects implemented as part of the grant competition in 2018
- 26 ₽ m provided in grant funding in 2018

Grant competitions are the key vehicle harnessed to aid local activists, non-profit and non-governmental organisations and public institutions across the Company’s footprint. Our efforts in this area go beyond one-off support, as Gazprom Neft seeks to make sure that most projects could flourish after the grant expires. The winners receive Gazprom Neft’s financial, methodological and expert support.

In 2018, the competition ran in six regions – Yamal-Nenets and Khanty-Mansi – Yugra autonomous areas, Tyumen, Tomsk, Omsk and Orenburg regions, with 118 initiatives supported and the grant fund totalling ₽ 26 m.

Music and drawing teacher changes life around her (coverage by AIF Orenburg)
Key social projects in 2018

GAZPROM NEFT CUP

Gazprom Neft Cup is an international kids hockey established in 2007 as the Company’s key project promoting children’s sports. It also the world’s largest non-for-profit hockey competition for children under 11 years old.

The Cup boasts organisational support unmatched by any other kids tournament. The competition takes place at Olympic ice arenas, with opening ceremonies and superfinals being by no means inferior to the world’s best hockey shows. The games are covered by major sports channels, radio stations and online portals and streamed live with professional commentary. The 2018 tournament brought together 26 clubs from six countries (Belarus, Germany, Kazakhstan, Latvia, Russia and Finland).

BECOMING INCREASINGLY INTERNATIONAL

In 2019, Gazprom Neft Cup will get a lot bigger, with teams from Austria, China, Slovakia and the Czech Republic joining the current participants from Russia, Belarus, Germany, Kazakhstan, Latvia and Finland. As a result, the tournament will see 31 teams from ten countries competing for the cup, which makes it the largest non-for-profit international kids hockey competition.

KUSTENDORF CLASSIC MUSIC FESTIVAL

Every year, Serbia hosts a festival of Russian classical music with the globally renowned film director Emir Kusturica as its founder and key mastermind. Gazprom Neft has been sponsoring the festival since its inception in 2013. The event primarily seeks to support young musicians and foster cultural ties between Russia and Serbia, with its programme featuring a contest of aspiring musicians, various workshops and performances by the world’s classical music stars such as conductor Valery Gergiev and classical pianist Denis Matsuev. The 6th festival welcomed 27 young Russian musicians from across the Company’s regions of operation.

Golden Matryoshkas from this year’s Bolshoy Festival on their way to Russia and Serbia
More details on Makers of Russia

St Petersburg to host International Congress of Mathematicians 2022

Together with the Creative Practices Fund, Gazprom Neft runs the Makers of Russia project to support young entrepreneurs. The project offers a series of research tasks, forums and intensive workshops bringing into focus the Mastera.Academy online media portal, which serves as a free platform for young entrepreneurs to share their experiences, develop professional competencies and present their products to a wider audience. The portal’s most active users can benefit from the support of mentors and internships to develop their business.

In 2018, over 7,000 people took online courses at Mastera.Academy, with 13 entrepreneurs from across Russia completing internships in Finland and St Petersburg.

Since 2013, Gazprom Neft has been a partner of the Chebyshev Laboratory at St Petersburg State University led by the Fields medal winner Stanislav Smirnov. Our joint project, Arithmetic Progression, provides support to young mathematicians at every stage of learning, which includes enrolling schoolchildren at universities, allocating dedicated scholarships to students, offering grants and internships [both in Russia and overseas] to young scientists, and funding fundamental research projects of professional teams.

In 2018, the Company offered scholarships and prizes to 60 students and four young scientists as part of the project. In 2019, the project will reach out across the border, with Gazprom Neft to sponsor the launch of a Modern Mathematics international master’s programme.

Since 2015, Gazprom Neft has been annually running the Developing Talent case-solving tournament for gifted high school students from across the Company’s regions of operation. In 2018, the tournament saw 2,600 applications, with 106 best oil and gas research projects selected by the jury for in-person presentation at regional rounds, and 24 winning teams making it to the finals in St Petersburg.

1 The top award in the field of mathematics. The Fields Medal is awarded to two to four mathematicians under 40 years of age at the International Congress of the International Mathematical Union, a meeting that takes place every four years.
Gazprom Neft supports Stenograffia, Russia’s major street art and graffiti festival which invites the participants to transform inconspicuous town buildings into works of art.

The large-scale paintings take into account the area’s specifics along with its cultural and historical heritage, incorporating themes and images familiar and dear to locals. Stenograffia works feature in prestigious international street art catalogues such as Google Arts & Culture.

The 2018 festival helped create new landmarks across the Company’s “home” towns, with 38 major art pieces appearing in Yekaterinburg, Khanty-Mansiysk and Omsk. Yekaterinburg also received a unique graffiti mural created by a neural network and drawn by a robotic printer with no human involvement. In Orenburg, a nine-storey building displays a mural called Einstein-Rosen Bridge – a tunnel connecting different universes.

STRELKA EDUCATIONAL EVENTS

Together with Strelka Institute for Media, Architecture and Design, Gazprom Neft organises educational events for enthusiasts living in St Petersburg and Omsk. The lecturers are partners from architectural firms, museum curators, national and international design, technology and digital innovation experts.

In 2018, more than 4,000 St Petersburg residents attended In the City, a conference on technologies shaping the future of our cities. In Omsk, the Your Town in Your Own Hands project brought together over 1,000 locals, with another 54,000 watching the online broadcast.
STORM MIXED MARTIAL ARTS (MMA) SCHOOL

Since 2015, Gazprom Neft has been supporting the Storm school opened in Omsk by Alexander Shlemenko, one of the most successful Russian mixed martial artists. Storm facilities are equipped on par with the world’s leading MMA schools, with over 400 children training free of charge as part of Gazprom Neft’s scholarship programme.

In 2018, the school held the third annual mixed martial arts tournament that brought together more than 300 kids from 11 Russian regions.

Outdoor sports grounds

As part of the joint work to effectively transform Omsk social and sports infrastructure, the Omsk Region Government, Storm School and Gazprom Neft helped build outdoor sports grounds equipped with state-of-the-art workout equipment. Since 2014, the city has received five new sports facilities where Storm coaches regularly hold free training sessions, with three more to be opened each year starting from 2019.

SPIRIT OF FIRE INTERNATIONAL FESTIVAL

In 2007, Gazprom Neft became a general partner of Spirit of Fire, Russia’s one and only debut film event hosted by Khanty-Mansiysk.

The international festival is led and inspired by the famous Russian film director Sergei Solovyov (Assa, One Hundred Days after Childhood). His fame along with the event’s unique venue and special vibe serve to attract the world’s celebrities such as Catherine Deneuve, Fanny Ardant, Pierre Richard and Vincent Pérez.

SOCIAL INITIATIVES ABROAD

Serbia

One of the major long-term investors in Serbian economy, Gazprom Neft runs large-scale social projects seeking to support national culture and preserve the country’s historical heritage.

THE CHURCH OF SAINT SAVA MOSAIC DECORATION
The Company initiated and supported the mosaic decoration of the dome of the Church of Saint Sava in Belgrade. This is an architectural monument of Serbia and one of the largest Eastern Orthodox church buildings in the world. After three years of decoration work, the church was inaugurated in Belgrade in 2018. The opening ceremony was attended by Aleksandar Vučić, President of the Republic of Serbia, Sergey Lavrov, Minister of Foreign Affairs of the Russian Federation, Patriarch Irinej of Serbia, and Alexander Dyukov, Gazprom Neft’s CEO.

KUSTENDORF CLASSIC MUSIC FESTIVAL
Every year, Serbia hosts a festival of Russian classical music with the globally renowned film director Emir Kusturica as its founder and key mastermind. Gazprom Neft has been sponsoring the festival since its inception in 2013. For more details on the Kustendorf festival, see p. 132.

SUPPORT OF THE RUSSIAN HOUSE – RUSSIAN CENTRE OF SCIENCE AND CULTURE
The Russian House established in Belgrade back in 1933 is the oldest Russian culture centre abroad. The centre seeks to build tight cultural and international relations between Russia and Serbia and promote the Russian language, science and culture. In 2019, the Company donated a Steinway & Sons concert grand piano to the Russian House in Belgrade to mark its 85th anniversary.

Kurdistan Region of Iraq

In the region, Gazprom Neft runs a large-scale social programme focused on providing jobs to local residents at the facilities of Gazprom Neft and its contractors and professional training in the oil and gas sector. As part of the programme, 16 students and three PhD students from Kurdistan study at leading Russian oil and gas universities. In 2018, the number of locals employed by the Company and its contractors in the region exceeded 400.

Other social projects in 2018 include electrification of Khasira and Mil Qasim villages, upgrade of the football ground and playground, purchase of equipment and medications for the hospital in Sarqala.
Gazprom Neft operates in the settlement areas of indigenous northern minorities in the Khanty-Mansi Autonomous Area – Yugra and Yamal-Nenets Autonomous Area. Bearing in mind the rapid growth of its assets, the Company strives to do business in a responsible way to keep local ecosystems and culture alive. It runs environmental protection activities using advanced technology and provides support to local communities to facilitate their integration into the modern social and economic environment while also preserving their customs and traditions.

The Group’s companies that operate in the areas inhabited by the indigenous northern minorities are Gazpromneft-NNG, Gazpromneft-Yamal, Gazpromneft-Zapolyarye and Gazpromneft-Khanotos. They rely on the Company’s Policy on Interactions with Indigenous Northern, Siberian and Far Eastern Minorities as the underlying document defining the common approach, main principles and key areas of the Company’s interaction with local communities.

The Policy provides for the Company’s business strategy to be implemented with due regard to the need to sustain the culture and traditional way of life of the northern communities. To this effect, Gazprom Neft makes sure its employees and contractors are aware of the rules of conduct in the settlement areas of indigenous minorities and gives support to social initiatives. The basic interaction principles include respect of their rights, transparency and constructive cooperation.

The Company ensures strict observance of indigenous peoples’ rights in the course of field development. When working on relevant projects, the Company and local authorities stage public hearings attended by indigenous minority representatives so as to take their interests into account in the facility construction process. The Company also holds regular informational meetings with heads of indigenous families and representatives of municipal governments.

The Group’s companies sign agreements with the heads of indigenous families or the representatives of municipal governments in order to support the northern communities. Gazprom Neft provides financial aid to indigenous households and communities and implements initiatives to preserve their ethnic identity, develop cultural ties between them and revive their traditional crafts. As part of that, the Company supports local festivals – the Reindeer Herder’s Day and the Fisherman’s Day. In 2018, the Reindeer Herder’s Day was held in the city of Muravlenko, Khanymey, Novy Port, Yar Sale, Tazovsky, Khalysaway, Tolka and Russkinskaya villages, while the Fisherman’s Day took place in Novy Port village. Every year, Gazprom Neft donates money to put into action the projects of indigenous northern minorities – the grant winners. Among the 2018 initiatives were a puppet theatre, organisation of a boat race featuring oblases, traditional rowing boats, and training in local crafts.
PUBLIC RECOGNITION

In 2018, the Home Towns social investment programme won two prestigious Leaders of Corporate Charity awards in the Best Grant Competition and Method of Evaluating Social Impact of Charitable Projects categories. Leaders of Corporate Charity is the largest competition of charity practices and social investment among Russian companies organised by the Donors Forum [the Association of Sponsoring Organisations], PricewaterhouseCoopers audit company and the Vedomosti newspaper.

The Company’s grant competition received high accolade at the Champions of Goodness corporate volunteering contest, winning the second place in the Contribution to Corporate Volunteering category. This nationwide competition is organised by the Association of Managers and the National Corporate Volunteering Council.

The Company also came top in the Leaders of Corporate Charity in the Northwest regional competition. Its Strelka Week project was recognised as the best project for local community development. The Arithmetic Progression project run together with the Chebyshev Laboratory at St Petersburg State University was ranked second best educational initiative for North-Western Federal District.

Gazpromneft-Khantos, Gazprom Neft’s subsidiary, earned the Black Gold of Yugra prize. In 2017, the company came second in the Social and Economic Partnership among the Companies with Annual Production of over 5 Mt of Oil category.

Meeting targets for 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pursue initiatives outlined in social and economic partnership agreements signed with Russian regions, hold at least one meeting with regional authorities to discuss the agreement implementation and adjust the action plan accordingly. Audit 100% of published and effective local regulations or law-making initiatives that may affect the Company’s operations.</td>
<td>The Company took part in assessing the regulatory impact of 30 laws and regulations adopted in the Tyumen, Omsk, Tomsk, Orenburg regions, Yamal-Nenets and Khanty-Mansi – Yugra autonomous areas, Moscow and St Petersburg. For details on the results of the efforts made as part of the social and economic partnership agreements, see the Regional Policy and Development of Local Communities chapter.</td>
</tr>
<tr>
<td>Increase the number of Russian regions cooperating with the Company in the substitution of lubricant and process fluid imports to 17</td>
<td>In 2018, the lubricant import substitution programme covered three more areas – the Moscow and Amur regions and the Primorye Territory. As a result, the total number of effective agreements reached 17.</td>
</tr>
</tbody>
</table>
Perform an assessment of the Company’s relations with regional governments and the ways of informing them on the Company’s operations in key regions.

Sign and enforce the implementation of social and economic agreements and roadmaps in Russian regions.

Arrange for an internal assessment of the Home Towns project portfolio.

Continue holding grant competitions of social projects in the six regions of operation: Omsk, Tomsk, Orenburg and Tyumen regions, Yamal-Nenets and Khanty-Mansi – Yugra autonomous areas. Support at least 100 contestant initiatives.

Ensure the development of corporate volunteering projects and maximise the effect of the volunteering initiatives.

Carry on supporting the culture and historical heritage of Serbia.
### APPENDIX 1. ADDITIONAL INFORMATION AND SUSTAINABLE DEVELOPMENT METRICS

#### Personnel development

**Headcount and employee mix**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL HEADCOUNT AS AT THE END OF THE PERIOD, PEOPLE</td>
<td>61,465</td>
<td>66,497</td>
<td>66,561</td>
<td>67,882</td>
<td>70,648</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; men</td>
<td>36,768</td>
<td>37,216</td>
<td>40,835</td>
<td>40,254</td>
<td>42,917 (61%)</td>
</tr>
<tr>
<td>&gt; women</td>
<td>24,497</td>
<td>29,281</td>
<td>25,726</td>
<td>27,628</td>
<td>27,731 (39%)</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; blue-collar employees</td>
<td>36,181</td>
<td>36,881</td>
<td>34,232</td>
<td>33,873</td>
<td>33,002 (47%)</td>
</tr>
<tr>
<td>&gt; white-collar employees</td>
<td>25,284</td>
<td>29,616</td>
<td>32,329</td>
<td>34,009</td>
<td>37,646 (53%)</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; below 30 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>14,647</td>
<td>14,422 (20.4%)</td>
</tr>
<tr>
<td>&gt; 30–50 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>42,736</td>
<td>45,361 (64.2%)</td>
</tr>
<tr>
<td>&gt; over 50 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>10,499</td>
<td>10,865 (15.4%)</td>
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<tr>
<td>TOTAL NUMBER OF EMPLOYEES HIRED, PEOPLE</td>
<td>17,457</td>
<td>17,694</td>
<td>14,841</td>
<td>17,184</td>
<td>16,808</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Russian regions</td>
<td>15,244</td>
<td>15,492</td>
<td>12,912</td>
<td>15,708</td>
<td>14,945</td>
</tr>
<tr>
<td>&gt; CIS countries</td>
<td>1,705</td>
<td>1,727</td>
<td>1,104</td>
<td>881</td>
<td>1,116</td>
</tr>
<tr>
<td>&gt; non-CIS countries</td>
<td>508</td>
<td>475</td>
<td>825</td>
<td>595</td>
<td>747</td>
</tr>
<tr>
<td>TOTAL NUMBER OF EMPLOYEES LEAVING, PEOPLE</td>
<td>15,133</td>
<td>16,684</td>
<td>14,335</td>
<td>16,093</td>
<td>15,205</td>
</tr>
<tr>
<td>including as a result of:</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; downsizing/redundancy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; resignations</td>
<td>9,006</td>
<td>10,047</td>
<td>9,600</td>
<td>9,674</td>
<td>8,566</td>
</tr>
<tr>
<td>&gt; dismissals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Russian regions</td>
<td>12,864</td>
<td>13,811</td>
<td>11,960</td>
<td>14,548</td>
<td>13,117</td>
</tr>
<tr>
<td>&gt; CIS countries</td>
<td>1,549</td>
<td>2,000</td>
<td>1,902</td>
<td>1,056</td>
<td>1,131</td>
</tr>
<tr>
<td>&gt; non-CIS countries</td>
<td>720</td>
<td>873</td>
<td>473</td>
<td>489</td>
<td>957</td>
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</table>
Social package and benefits (₽'000)

<table>
<thead>
<tr>
<th>Benefit</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free and subsidised meals</td>
<td>526,988</td>
<td>711,380</td>
<td>764,480</td>
<td>793,176</td>
<td>933,000</td>
</tr>
<tr>
<td>Voluntary health insurance</td>
<td>719,561</td>
<td>698,542</td>
<td>847,477</td>
<td>1,100,348</td>
<td>1,513,748</td>
</tr>
<tr>
<td>Compensation of travel packages</td>
<td>166,522</td>
<td>121,041</td>
<td>183,817</td>
<td>239,280</td>
<td>212,350</td>
</tr>
<tr>
<td>Housing programme</td>
<td>181,038</td>
<td>215,405</td>
<td>142,069</td>
<td>133,119</td>
<td>194,021</td>
</tr>
<tr>
<td>Sporting and cultural events</td>
<td>125,537</td>
<td>129,136</td>
<td>197,154</td>
<td>249,102</td>
<td>312,284</td>
</tr>
</tbody>
</table>

Personnel training

<table>
<thead>
<tr>
<th>Metric</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL TRAINING DURATION, HOURS</td>
<td>2,054,092</td>
<td>1,927,478</td>
<td>2,289,437</td>
<td>2,930,760</td>
<td>2,166,150</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; white-collar employees</td>
<td>876,192</td>
<td>1,052,928</td>
<td>1,145,836</td>
<td>1,404,960</td>
<td>1,082,549</td>
</tr>
<tr>
<td>&gt; blue-collar employees</td>
<td>1,177,900</td>
<td>874,550</td>
<td>1,143,601</td>
<td>1,525,800</td>
<td>1,083,601</td>
</tr>
<tr>
<td>&gt; men</td>
<td>1,252,996</td>
<td>1,175,762</td>
<td>1,396,557</td>
<td>1,729,148</td>
<td>1,278,029</td>
</tr>
<tr>
<td>&gt; women</td>
<td>801,096</td>
<td>751,716</td>
<td>892,881</td>
<td>1,201,612</td>
<td>888,122</td>
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</tbody>
</table>

Safe development

<table>
<thead>
<tr>
<th>Metric</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL WATER CONSUMPTION, MCM</td>
<td>177.20</td>
<td>174.40</td>
<td>177.50</td>
<td>169.50</td>
<td>198.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metric</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>COST OF ENVIRONMENTAL SERVICES, ENVIRONMENT SAFETY AND PROTECTION (₽'M³)</td>
<td>6,159.7</td>
<td>6,377.6</td>
<td>6,875.6</td>
<td>6,908.1</td>
<td>5,753.9</td>
</tr>
</tbody>
</table>

Changes in key waste management metrics [kt]

<table>
<thead>
<tr>
<th>Metric</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total waste generation</td>
<td>657.2</td>
<td>1,104.5</td>
<td>904.7</td>
<td>1,132.2</td>
<td>1,040.1</td>
</tr>
<tr>
<td>Waste disposal (including waste transferred to third parties for disposal)</td>
<td>324.8</td>
<td>689.6</td>
<td>415.4</td>
<td>739.9</td>
<td>616.8</td>
</tr>
</tbody>
</table>

Economic efficiency

Direct economic value generated and distributed (₽ m)

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct economic value generated, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>1,507,631</td>
<td>1,590,796</td>
<td>1,990,191</td>
<td>2,587,503</td>
</tr>
<tr>
<td>Economic value distributed, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs, including</td>
<td>908,677</td>
<td>926,160</td>
<td>1,063,140</td>
<td>1,284,850</td>
</tr>
<tr>
<td>Employee wages and benefits</td>
<td>76,713</td>
<td>77,467</td>
<td>86,510</td>
<td>97,557</td>
</tr>
<tr>
<td>Payments to government</td>
<td>382,397</td>
<td>430,945</td>
<td>624,449</td>
<td>826,828</td>
</tr>
<tr>
<td>Payments to providers of capital</td>
<td>33,943</td>
<td>34,282</td>
<td>25,127</td>
<td>21,476</td>
</tr>
<tr>
<td>Economic value retained</td>
<td>116,197.9</td>
<td>209,726.2</td>
<td>269,676.5</td>
<td>400,942.0</td>
</tr>
</tbody>
</table>
## APPENDIX 2. MAP OF MATERIAL TOPICS

**Boundaries of material topics: within the Company**

- ■ – direct impact
- □ – indirect impact
- Blank field – no material impact

<table>
<thead>
<tr>
<th>Topics and aspects</th>
<th>Upstream</th>
<th>Oil refining</th>
<th>Sales</th>
<th>Dedicated report chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECONOMIC PERFORMANCE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Financial Efficiency</td>
</tr>
<tr>
<td>Investment programme</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Financial Efficiency</td>
</tr>
<tr>
<td>Financial stability</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Financial Efficiency</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Financial Efficiency</td>
</tr>
<tr>
<td>Product safety and quality</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Financial Efficiency</td>
</tr>
<tr>
<td>Innovations</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Financial Efficiency</td>
</tr>
<tr>
<td>Energy efficiency and conservation</td>
<td>■</td>
<td>■</td>
<td></td>
<td>Safe Development</td>
</tr>
<tr>
<td><strong>Climate change</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Company’s strategy on climate</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Safe Development</td>
</tr>
<tr>
<td><strong>ETHICS AND GOVERNANCE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance quality</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Sustainability Management</td>
</tr>
<tr>
<td>Compliance</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Sustainability Management</td>
</tr>
<tr>
<td>Human rights</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Sustainability Management</td>
</tr>
<tr>
<td>Respect for the rights of indigenous peoples</td>
<td>■</td>
<td></td>
<td></td>
<td>Sustainability Management, Regional Policy and Development of Local Communities</td>
</tr>
<tr>
<td>Anti-corruption</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>Sustainability Management</td>
</tr>
<tr>
<td>ENVIRONMENTAL SAFETY</td>
<td></td>
<td>Safe Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------</td>
<td>------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wastewater discharges</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Emissions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste generation and management</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental impact of the Company’s Arctic operations</td>
<td></td>
<td>Safe Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and vegetation protection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental properties of products</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>OCCUPATIONAL SAFETY</th>
<th></th>
<th>Safe Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational safety and emergency preparedness</td>
<td></td>
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<tr>
<td>Health and safety</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in injury and severity rates</td>
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<td></td>
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</table>

<table>
<thead>
<tr>
<th>HUMAN CAPITAL</th>
<th></th>
<th>Personnel Development</th>
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</thead>
<tbody>
<tr>
<td>Fair remuneration and social benefits</td>
<td></td>
<td>Personnel Development</td>
</tr>
<tr>
<td>Personnel training and development</td>
<td></td>
<td>Personnel Development</td>
</tr>
<tr>
<td>Labour relations and employment</td>
<td></td>
<td>Personnel Development</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>IMPACT ON THE COMPANY’S REGIONS OF OPERATION</th>
<th></th>
<th>Regional Policy and Development of Local Communities, Financial Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to the social and economic development of local communities: Gazprom Neft’s role as an employer, taxpayer, and purchaser of local services</td>
<td></td>
<td>Regional Policy and Development of Local Communities, Financial Efficiency</td>
</tr>
<tr>
<td>Local community development programmes</td>
<td></td>
<td>Regional Policy and Development of Local Communities</td>
</tr>
<tr>
<td>Efficiency of social investments</td>
<td></td>
<td>Regional Policy and Development of Local Communities</td>
</tr>
</tbody>
</table>
## Boundaries of material topics beyond the Company: key stakeholders

<table>
<thead>
<tr>
<th></th>
<th>Shareholders and investors</th>
<th>Employees</th>
<th>Consumers</th>
<th>Federal and local government authorities</th>
<th>Suppliers, contractors, partners</th>
<th>Trade unions</th>
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<th>Non-profit and non-governmental organisations</th>
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<td>Environmental properties of products</td>
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### Boundaries of material topics beyond the Company: key stakeholders

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<thead>
<tr>
<th>Shareholders and investors</th>
<th>Employees</th>
<th>Consumers</th>
<th>Federal and local government authorities</th>
<th>Suppliers, contractors, partners</th>
<th>Trade unions</th>
<th>Local communities across the Company’s footprint</th>
<th>Non-profit and non-governmental organisations</th>
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<tr>
<td>Contribution to the social and economic development of local communities: Gazprom Neft’s role as an employer, taxpayer, and purchaser of local services</td>
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</table>
APPENDIX 3. GRI INDICATORS

The Report focuses on the topics that are defined as most material for the Company and its stakeholders. In preparing the report, the Company relied on the GRI Reporting Standards (Core Option) and the RSPP Reference Performance Indicators.

<table>
<thead>
<tr>
<th>GRI Standard</th>
<th>GRI indicator</th>
<th>Report section</th>
<th>Page number(s) / reference to other documents</th>
<th>Disclosure boundaries</th>
<th>Comments</th>
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<tbody>
<tr>
<td>GRI 102–1</td>
<td>Name of the organisation</td>
<td>About the Company</td>
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<td>GRI 102–2</td>
<td>Activities, brands, products, and services</td>
<td>About the Company, Financial Efficiency</td>
<td>9, 12–19</td>
<td>PJSC Gazprom Neft</td>
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<td>GRI 102–3</td>
<td>Location of headquarters</td>
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<td>PJSC Gazprom Neft</td>
<td>3-5 Pochtamtskaya St., St Petersburg, 190000, Russian Federation.</td>
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<td>GRI 102–4</td>
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<td>About the Company</td>
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<td>GRI 102–5</td>
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<td>GRI 102–6</td>
<td>Markets served</td>
<td>About the Company, Financial Efficiency, Personnel Development</td>
<td>9, 12-19</td>
<td>PJSC Gazprom Neft</td>
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<tr>
<td>GRI 102–7</td>
<td>Scale of the organisation</td>
<td>About the Company, Personnel Development, Financial Efficiency, GRI Indicators</td>
<td>10, 18, 75, 146</td>
<td>PJSC Gazprom Neft</td>
<td>Capitalisation (total liabilities and equity) = ₽3,520,926 m, incl. current liabilities = ₽562,322 m, non-current liabilities = ₽966,785 m, and equity ₽1,991,819 m.</td>
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<tr>
<td>GRI 102–8</td>
<td>Information on employees and other workers</td>
<td>Personnel Development, GRI Indicators</td>
<td>75, 146</td>
<td>Gazprom Neft Group</td>
<td>No records of part-time employees are kept.</td>
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<tr>
<td>GRI 102–9</td>
<td>Supply chain</td>
<td>Financial Efficiency</td>
<td>28–29</td>
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<tr>
<td>GRI 102–10</td>
<td>Significant changes to the organisation and its supply chain</td>
<td>GRI Indicators</td>
<td>146</td>
<td>PJSC Gazprom Neft</td>
<td>In the reporting period, the supply chain did not change materially.</td>
</tr>
<tr>
<td>GRI 102–11</td>
<td>Precautionary principle or approach</td>
<td>GRI Indicators</td>
<td>147</td>
<td>PJSC Gazprom Neft</td>
<td>Precautionary principle or approach is fundamental for planning and implementing the Company’s activities. For the detailed explanation, see p. 99 of the Company’s Sustainability Report 2010.</td>
</tr>
</tbody>
</table>
The Company adheres to the UN Global Compact principles. The Company’s sustainability goals and focus areas are closely linked to the UN Sustainable Development Goals. In managing sustainable development and corporate social responsibility, the Company is also guided by the principles set out in ISO 26000 (Guidance on Social Responsibility). Also, Gazprom Neft joined the Anti-Corruption Charter of the Russian Business.
<table>
<thead>
<tr>
<th>GRI Standard</th>
<th>GRI indicator</th>
<th>Report section</th>
<th>Page number(s) / reference to other documents</th>
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<td>GRI 102–25</td>
<td>Conflicts of interest</td>
<td>Sustainability Management, Stakeholder Engagement, GRI Indicators</td>
<td>45, 148</td>
<td>PJSC Gazprom Neft</td>
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<td>GRI 102–28</td>
<td>The competencies and performance evaluation of the highest governance body</td>
<td>Sustainability Management, Stakeholder Engagement</td>
<td>44, 49</td>
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<td>GRI 102–30</td>
<td>Effectiveness of risk management processes</td>
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<td>57–59</td>
<td>PJSC Gazprom Neft</td>
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<td>GRI 102–32</td>
<td>Highest governance body’s role in sustainability reporting</td>
<td>GRI indicators</td>
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<td>PJSC Gazprom Neft</td>
<td>Alexander Dyukov, Chairman of the Management Board at Gazprom Neft.</td>
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<td>GRI 102–33</td>
<td>Communicating critical concerns</td>
<td>The Corporate Governance section in the Company’s Annual Report 2018</td>
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<td>GRI 102–34</td>
<td>Nature and total number of critical concerns</td>
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<td>GRI 102–35</td>
<td>Remuneration policies for the highest governance body and senior executives</td>
<td>Sustainability Management, Stakeholder Engagement, GRI indicators, the Corporate Governance section in the Company’s Annual Report 2018</td>
<td>47, 149 The Corporate Governance section in the Company’s Annual Report 2018</td>
<td>PJSC Gazprom Neft</td>
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<td>GRI 102–36</td>
<td>Process for determining remuneration</td>
<td>Sustainability Management, Stakeholder Engagement, GRI indicators, the Corporate Governance section in the Company’s Annual Report 2018</td>
<td>47, 149</td>
<td>PJSC Gazprom Neft</td>
<td>Disclosed except for information on involvement of remuneration consultants in determining remuneration.</td>
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**Stakeholder engagement**

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<th>GRI 102–40</th>
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<th>Sustainability Management, Stakeholder Engagement</th>
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<td>GRI 102–42</td>
<td>Identifying and selecting stakeholders</td>
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**Reporting practice**

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<th>Entities included in the consolidated financial statements</th>
<th>Appendix 2, Appendix 4 to the Company’s Annual Report 2018</th>
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<th>Gazprom Neft Group</th>
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<td>GRI 102–46</td>
<td>Defining report content and topic boundaries</td>
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<td>GRI 102–47</td>
<td>List of material topics</td>
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<td>Changes in reporting</td>
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<td>146–160</td>
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**TOPIC-SPECIFIC STANDARD DISCLOSURES**

**Material topic: Strategy**

| GRI 103 | Management approach | Sustainability Strategy, GRI Indicators | 34–37, 151 | PJSC Gazprom Neft | Due to the information disclosure in GRI 102-14, this material topic covers only management approaches. |

**Material topic: Corporate governance quality**

| GRI 103 | Management approach | Sustainability Management, Stakeholder Engagement, GRI Indicators | 42–47, 151 | PJSC Gazprom Neft | Due to the information disclosure in GRI 102-18 – GRI 102-36, this material topic covers only management approaches. |

**ECONOMIC ASPECT**

**Material topic: Investment programme**

| GRI 103 | Management approach | Regional Policy and Development of Local Communities | 127–129 | PJSC Gazprom Neft |           |
| GRI 203–1 | Infrastructure investments and services supported | Regional Policy and Development of Local Communities | 128–129 | PJSC Gazprom Neft |           |

**Material topics: Financial stability and operational efficiency**

<p>| GRI 103 | Management approach | Financial Efficiency, Sustainability Management, Stakeholder Engagement | 12–19, 48–51 | Gazprom Neft Group |           |
| GRI 201–1 | Direct economic value generated and distributed | Appendix 1. Additional Information and Sustainable Development Metrics | 141 | Gazprom Neft Group | The Company and its subsidiaries take advantage of tax benefits as allowed by the applicable tax law. |
| GRI 201–4 | Financial assistance received from government | GRI Indicators, Appendix 1 Additional Information and Sustainable Development Metrics | 141, 151 | PJSC Gazprom Neft | The Company does not thwart competition. Gazprom Neft has approved an Anti-Monopoly Policy and has been consistently working to prevent and minimise anti-trust and monopoly risks. In 2018, Russia’s Federal Antimonopoly Service did not initiate any anti-monopoly proceedings against Gazprom Neft. |
| GRI 206–1 | Number of legal actions regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organisation has been identified as a participant, and their main outcomes | GRI Indicators, Sustainability Management, Stakeholder Engagement | 54–55 | PJSC Gazprom Neft |           |</p>
<table>
<thead>
<tr>
<th>GRI Standard</th>
<th>GRI indicator</th>
<th>Report section</th>
<th>Page number(s) / reference to other documents</th>
<th>Disclosure boundaries</th>
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<td>GRI 204–1</td>
<td>Proportion of spending on local suppliers</td>
<td>Financial Efficiency, GRI Indicators</td>
<td>28–29</td>
<td>PJSC Gazprom Neft</td>
<td>Significant locations of operation are the exploration and production regions.</td>
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<tr>
<td>Material topic: Efficiency of social investments</td>
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<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Financial Efficiency, Personnel Development, Regional Policy and Development of Local Communities</td>
<td>26–29, 72–73, 130–137</td>
<td>PJSC Gazprom Neft</td>
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<td>GRI 203–2</td>
<td>Significant indirect economic impacts</td>
<td>Financial Efficiency, Personnel Development, Regional Policy and Development of Local Communities</td>
<td>26–29, 72–73, 130–137</td>
<td>PJSC Gazprom Neft</td>
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<tr>
<td>ENVIRONMENTAL ASPECT</td>
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<td>Material topic: Compliance</td>
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<td>GRI 103</td>
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<td>Environmental Safety</td>
<td>101, 102, 105</td>
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<td>GRI 307–1</td>
<td>Non-compliance with environmental laws and regulations</td>
<td>GRI Indicators</td>
<td>152</td>
<td>PJSC Gazprom Neft</td>
<td>Timely remedial actions were taken to address all cases of non-compliance with environmental laws and regulations identified in the reporting year.</td>
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<td>Material topic: Wastewater discharges</td>
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<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>108–109</td>
<td>PJSC Gazprom Neft</td>
<td></td>
</tr>
<tr>
<td>GRI 306–1</td>
<td>Total water discharge by quality and destination</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, GRI Indicators</td>
<td>108–109, 152</td>
<td>Gazprom Neft’s subsidiaries that have a substantial impact in terms of water discharges (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx</a>)</td>
<td>Disclosed except for indicating the quality and destination (excl. discharges into surface water bodies).</td>
</tr>
<tr>
<td>Material topic: Emissions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>102–107</td>
<td>PJSC Gazprom Neft</td>
<td></td>
</tr>
<tr>
<td>GRI 305–6</td>
<td>Emissions of ozone-depleting substances (ODS)</td>
<td>GRI Indicators</td>
<td>152</td>
<td>PJSC Gazprom Neft</td>
<td>The Company does not emit any ozone-depleting substances on an industrial scale.</td>
</tr>
</tbody>
</table>
## GRI 305–7 Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air pollutants

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Report section</th>
<th>Page number(s) / reference to other documents</th>
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</thead>
<tbody>
<tr>
<td>Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air pollutants</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>103</td>
<td>Gazprom Neft’s subsidiaries that have a substantial impact in terms of NOx, SOx, and other significant air emissions (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx</a>)</td>
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</tr>
</tbody>
</table>

**Material topic: Environmental properties of products**

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Report section</th>
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<th>Disclosure boundaries</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Financial Efficiency</td>
<td>25–26</td>
<td>PJSC Gazprom Neft</td>
</tr>
</tbody>
</table>

**Material topics: Energy efficiency and conservation, innovations**

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Report section</th>
<th>Page number(s) / reference to other documents</th>
<th>Disclosure boundaries</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>115–119</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td>GRI 302–1</td>
<td>Energy consumption within the organisation</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, GRI Indicators</td>
<td>116–119, 153</td>
<td>Subsidiaries of Gazprom Neft’s Upstream Division that have a substantial impact in terms of energy consumption within the organisation (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx</a>)</td>
</tr>
<tr>
<td>GRI 302–2</td>
<td>Energy consumption outside of the organisation</td>
<td>GRI Indicators</td>
<td>153</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td>GRI 302–3</td>
<td>Energy intensity</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, GRI Indicators</td>
<td>118, 153</td>
<td>Subsidiaries of Gazprom Neft’s Downstream Division that have a substantial impact in terms of energy intensity within the organisation (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx</a>)</td>
</tr>
<tr>
<td>GRI Standard</td>
<td>GRI indicator</td>
<td>Report section</td>
<td>Page number(s) / reference to other documents</td>
<td>Disclosure boundaries</td>
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</tr>
<tr>
<td>GRI 302–4</td>
<td>Reduction of energy consumption</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, GRI Indicators</td>
<td>118, 154</td>
<td>Subsidiaries of Gazprom Neft’s Downstream and Upstream Divisions that have a substantial effect in terms of reduction of energy consumption (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/energy_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/energy_energy_gpn.xlsx</a>)</td>
</tr>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, Appendix 1. Additional Information and Sustainable Development Metrics</td>
<td>101, 110, 141</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td>GRI 306–2</td>
<td>Waste by type and disposal method</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, Appendix 1. Additional Information and Sustainable Development Metrics, GRI Indicators</td>
<td>110, 141, 154</td>
<td>Gazprom Neft's subsidiaries that have a substantial effect in terms of waste generation, neutralisation and disposal (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/energy_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/energy_energy_gpn.xlsx</a>)</td>
</tr>
<tr>
<td>GRI 306–4</td>
<td>Total weight for transported, imported, exported or treated hazardous waste</td>
<td>GRI Indicators</td>
<td>154</td>
<td>PJSC Gazprom Neft</td>
</tr>
</tbody>
</table>

**Material topic: Waste generation and management**

| GRI 103      | Management approach | Health, Safety and Environment, Energy Efficiency and Saving | 111, 112                                      | PJSC Gazprom Neft                                                                    |                                                                                                                                            |
| GRI 304–3    | Habitats protected or restored | Health, Safety and Environment, Energy Efficiency and Saving | 112, 113                                      | PJSC Gazprom Neft                                                                    |                                                                                                                                            |
| GRI 304–4    | Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations | GRI Indicators                                     | 155                                          | PJSC Gazprom Neft                                                                    | No rare or endangered species of animals, plants or mushrooms were identified in the areas where the Company’s production assets are located.                                                      |

**Material topic: Land and vegetation protection**

| GRI 103      | Management approach | Health, Safety and Environment, Energy Efficiency and Saving | 111–114                                     | PJSC Gazprom Neft                                                                    |                                                                                                                                            |

**Material topic: Environmental impact of the Company’s Arctic operations**

<p>| GRI 103      | Management approach | Health, Safety and Environment, Energy Efficiency and Saving | 112–114                                     | PJSC Gazprom Neft                                                                    |                                                                                                                                            |</p>
<table>
<thead>
<tr>
<th>GRI Standard</th>
<th>GRI indicator</th>
<th>Report section</th>
<th>Page number(s) / reference to other documents</th>
<th>Disclosure boundaries</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 304-1</td>
<td>Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, GRI Indicators</td>
<td>112-114, 155</td>
<td>PJSC Gazprom Neft</td>
<td>The Company has no production assets within the boundaries of specially protected natural areas of federal or regional significance. No rare or endangered species of animals, plants or mushrooms were identified. However, when planning its economic activities, the Company thoroughly assesses potential environmental risks and seeks to avoid serious or irreversible environmental violations.</td>
</tr>
<tr>
<td>GRI 304-2</td>
<td>Significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material topic: The Company’s strategy on climate; greenhouse gas emissions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>105</td>
<td>PJSC Gazprom Neft</td>
<td>Disclosed except for a breakdown by CO2 emissions from the combustion or biodegradation of biomass separately from the gross direct GHG emissions.</td>
</tr>
<tr>
<td>GRI 305-1</td>
<td>Direct (Scope 1) GHG emissions</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving, GRI Indicators</td>
<td>105, 155</td>
<td>Gazprom Neft’s subsidiaries that have a substantial impact in terms of direct (Scope 1) GHG emissions (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx</a>)</td>
<td></td>
</tr>
<tr>
<td>GRI 305-2</td>
<td>Energy indirect (Scope 2) GHG emissions</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>105</td>
<td>Gazprom Neft’s subsidiaries that have a substantial impact in terms of indirect (Scope 2) GHG emissions (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx</a>)</td>
<td></td>
</tr>
<tr>
<td>GRI 305-5</td>
<td>Reduction of GHG emissions</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>105</td>
<td>Gazprom Neft’s subsidiaries that have a substantial effect in terms of reduction of GHG emissions (the full list of such subsidiaries is available at <a href="http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx">http://ir.gazprom-neft.ru/fileadmin/user_upload/documents/corp-gov/ecology_energy_gpn.xlsx</a>)</td>
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<tr>
<td>GRI Standard</td>
<td>GRI indicator</td>
<td>Report section</td>
<td>Page number(s) / reference to other documents</td>
<td>Disclosure boundaries</td>
<td>Comments</td>
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<tr>
<td><strong>SOCIAL ASPECT</strong></td>
<td>Material topic: Product safety and quality</td>
<td>GRI 103</td>
<td>Management approach</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>88–89</td>
</tr>
<tr>
<td></td>
<td>GRI 416–2</td>
<td>Incidents of non-compliance concerning the health and safety impacts of products and services</td>
<td>GRI Indicators</td>
<td>156</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td><strong>Material topic: Personnel training and development</strong></td>
<td>GRI 103</td>
<td>Management approach</td>
<td>Personnel Development</td>
<td>80, 82, 85</td>
<td>Gazprom Neft Group</td>
</tr>
<tr>
<td></td>
<td>GRI 404–1</td>
<td>Average hours of training per year per employee</td>
<td>Personnel Development, GRI Indicators</td>
<td>80, 156</td>
<td>Gazprom Neft Group</td>
</tr>
<tr>
<td></td>
<td>GRI 404–2</td>
<td>Programmes for upgrading employee skills and transition assistance programmes</td>
<td>Personnel Development, GRI Indicators</td>
<td>80, 85, 156</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td></td>
<td>GRI 404–3</td>
<td>Percentage of employees receiving regular performance and career development reviews</td>
<td>Personnel Development, GRI Indicators</td>
<td>84, 157</td>
<td>Gazprom Neft Group</td>
</tr>
<tr>
<td><strong>Material topic: Anti-corruption</strong></td>
<td>GRI 103</td>
<td>Management approach</td>
<td>Sustainability management</td>
<td>54</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td></td>
<td>GRI 205–1</td>
<td>Total number and percentage of operations assessed for risks related to corruption, and identified significant risks</td>
<td>Sustainability Management, GRI Indicators</td>
<td>55–59, 157</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td></td>
<td>GRI 205–2</td>
<td>Communication and training about anti-corruption policies and procedures</td>
<td>Sustainability Management, Personnel Development, GRI Indicators</td>
<td>54, 73, 157</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td></td>
<td>GRI 205–3</td>
<td>Confirmed incidents of corruption and actions taken</td>
<td>Sustainability Management, Personnel Development, GRI Indicators</td>
<td>54, 73, 157</td>
<td>PJSC Gazprom Neft</td>
</tr>
<tr>
<td><strong>Material topic: Fair remuneration and social benefits</strong></td>
<td>GRI 103</td>
<td>Management approach</td>
<td>Personnel Development</td>
<td>76, 77, 78</td>
<td>Gazprom Neft Group</td>
</tr>
<tr>
<td></td>
<td>GRI 405–2</td>
<td>Ratio of basic salary and remuneration of women to men for each employee category and by significant locations of operation</td>
<td>Personnel Development, GRI Indicators</td>
<td>77, 157</td>
<td>Gazprom Neft Group</td>
</tr>
<tr>
<td>GRI Standard</td>
<td>GRI indicator</td>
<td>Report section</td>
<td>Page number(s) / reference to other documents</td>
<td>Disclosure boundaries</td>
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</tr>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Sustainability Management</td>
<td>53</td>
<td>PJSC Gazprom Neft</td>
<td>Human rights are part of the mandatory training programmes that cover 100% employees from the security function.</td>
</tr>
<tr>
<td>GRI 410–1</td>
<td>Security personnel trained in human rights policies or procedures</td>
<td>Sustainability Management, GRI Indicators</td>
<td>53, 157</td>
<td>PJSC Gazprom Neft</td>
<td></td>
</tr>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Personnel Development</td>
<td>72, 73</td>
<td>Gazprom Neft Group</td>
<td>Among the members of the Board of Directors, women account for 8%, directors aged 30 to 50 – 31%, and over 50 years old – 69%.</td>
</tr>
<tr>
<td>GRI 405–1</td>
<td>Diversity of governance bodies and employees</td>
<td>Sustainability Management, Personnel Development, Appendix 1, Additional Information and Sustainable Development Metrics, GRI Indicators</td>
<td>44–45, 140, 157</td>
<td>PJSC Gazprom Neft</td>
<td>New employee hires disclosed except for a breakdown by gender and age group, employee turnover disclosed except for a breakdown by age group, gender and region.</td>
</tr>
<tr>
<td>GRI 401–1</td>
<td>New employee hires and employee turnover</td>
<td>Personnel Development, Appendix 1, Additional Information and Sustainable Development Metrics, GRI Indicators</td>
<td>75, 158</td>
<td>Gazprom Neft Group</td>
<td></td>
</tr>
<tr>
<td>GRI 401–2</td>
<td>Benefits provided to full-time employees that are not provided to temporary or part-time employees</td>
<td>Personnel Development, Appendix 1, Additional Information and Sustainable Development Metrics, GRI Indicators</td>
<td>77, 141, 158</td>
<td>PJSC Gazprom Neft</td>
<td>Basic social benefits are provided to employees regardless of the employment type.</td>
</tr>
<tr>
<td>GRI 407–1</td>
<td>Operations and suppliers in which workers’ rights to exercise freedom of association or collective bargaining may be violated or at significant risk, and measures taken to support such rights</td>
<td>GRI Indicators</td>
<td>158</td>
<td>PJSC Gazprom Neft</td>
<td>No such operations or suppliers were identified during the reporting period.</td>
</tr>
<tr>
<td>GRI 402–1</td>
<td>Minimum notice periods regarding significant operational changes and their specification in collective bargaining agreements</td>
<td>GRI Indicators</td>
<td>158</td>
<td>PJSC Gazprom Neft</td>
<td>The Company complies with the Russian Labour Code which sets forth a minimum notice period prior to the implementation of significant operational changes (not later than two months before the start of relevant changes in general case and not later than three months before the start of relevant changes if the decision to reduce the headcount may lead to major layoffs).</td>
</tr>
<tr>
<td>GRI Standard</td>
<td>GRI indicator</td>
<td>Report section</td>
<td>Page number(s) / reference to other documents</td>
<td>Disclosure boundaries</td>
<td>Comments</td>
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</tr>
<tr>
<td>GRI 413–1</td>
<td>Percentage of operations with implemented local community engagement, impact assessments, and development programmes</td>
<td>GRI Indicators</td>
<td>159</td>
<td>PJSC Gazprom Neft</td>
<td>Local community engagement programmes are implemented by all key operations of the Company.</td>
</tr>
<tr>
<td>GRI 413–2</td>
<td>Operations with significant actual and potential negative impacts on local communities</td>
<td>GRI Indicators</td>
<td>159</td>
<td>PJSC Gazprom Neft</td>
<td>There is a risk that production operations may have a negative impact on the environment and health of local residents. The Company has been running programmes to mitigate this risk (for more details, see the Sustainability Management and Safe Development sections). Potential negative impacts on the local communities may be caused by the termination or optimisation of production projects leading to the headcount reduction or employee relocation to other regions. To minimise these risks, the Company runs employment and personnel development programmes at such production facilities. For more details, see the Personnel Development section. Disclosed except for the location of the operations with significant actual and potential negative impacts on local communities.</td>
</tr>
</tbody>
</table>

**Material topic: Respect for the rights of indigenous peoples**

<table>
<thead>
<tr>
<th>GRI 103</th>
<th>Management approach</th>
<th>Regional Policy and Development of Local Communities</th>
<th>137</th>
<th>PJSC Gazprom Neft</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 411–1</td>
<td>Number of incidents of violations involving rights of indigenous peoples and actions taken</td>
<td>GRI Indicators</td>
<td>159</td>
<td>PJSC Gazprom Neft</td>
</tr>
</tbody>
</table>
## Material topics: Health and safety, occupational safety and emergency preparedness

<table>
<thead>
<tr>
<th>GRI Standard</th>
<th>GRI indicator</th>
<th>Report section</th>
<th>Page number(s) / reference to other documents</th>
<th>Disclosure boundaries</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 103</td>
<td>Management approach</td>
<td>Personnel Development, Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>79, 91, 94–95, 98–100</td>
<td>PJSC Gazprom Neft</td>
<td></td>
</tr>
<tr>
<td>GRI 403–4</td>
<td>Worker participation in the development of the occupational health and safety management system as well as consultation and communication on occupational health and safety</td>
<td>Personnel Development</td>
<td>79</td>
<td>PJSC Gazprom Neft</td>
<td></td>
</tr>
<tr>
<td>GRI 403–6</td>
<td>Promotion of worker health</td>
<td>Health, Safety and Environment, Energy Efficiency and Saving</td>
<td>99</td>
<td>PJSC Gazprom Neft</td>
<td></td>
</tr>
</tbody>
</table>

## Material topic: Reduction in injury and severity rates

| GRI 103      | Management approach | Health, Safety and Environment, Energy Efficiency and Saving | 88–90, 97–98 | PJSC Gazprom Neft |          |
| GRI 403–9    | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | Health, Safety and Environment, Energy Efficiency and Saving, GRI Indicators | 94–95, 160 | Gazprom Neft’s production and service subsidiaries in Russia | Disclosed except for the types and rates of work-related injuries as well as number of hours worked. Injuries disclosed only with respect to the Company’s employees. Fatalities disclosed both in terms of the Company and contractors’ employees. |
APPENDIX 4.
INDEPENDENT ASSURANCE REPORT

Independent Limited Assurance Report to the Shareholders of Public Joint Stock Company Gazprom Neft

Introduction
We have been engaged by management of Public Joint Stock Company Gazprom Neft (hereinafter - the "Company") to provide limited assurance on the Selected Information described below and included in the Sustainability Report for the year ended 31 December 2018 (hereinafter - the "Sustainability Report").

Selected Information
We assessed the qualitative and quantitative information that is disclosed in the Sustainability Report and included in the GRI Standards Compliance Tables for standard disclosures in environmental, workforce, safety and socio-economic areas in the reporting scope of the Sustainability Report (hereinafter - the "Selected Information"). The scope of our assurance procedures was limited to Selected Information for year ended 31 December 2018.

Reporting Criteria
We assessed the Selected Information using the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI, 2014) (hereinafter - the "GRI Standards"). We believe these reporting criteria are appropriate given the purpose of our limited assurance engagement.

Public Joint Stock Company Gazprom Neft responsibilities
Management of the Company is responsible for:
• designing, implementing and maintaining internal controls over information related to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
• establishing objective Reporting Criteria for preparing the Selected Information;
• measuring and reporting the Selected Information based on the Reporting Criteria, and
• accuracy, completeness and fair presentation of the Selected Information.

Our responsibilities
We are responsible for:
• planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
• forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained, and
• reporting our conclusion to the management of the Company.

This report, including our conclusions, has been prepared solely for the management of the Company in accordance with the agreement between us, to assist management in reporting on the Company's sustainability performance and activities. We permit this report to be disclosed in the Company's Sustainability Report for the year ended 31 December 2018, to assist management in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than management of the Company for our work or this report except where terms are expressly agreed between us in writing and our prior consent in writing is obtained.

Professional standards applied and level of assurance
We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 2005 (revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our Independence and Quality Control
We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior, together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our assurance procedures over Selected Information in the Russian Federation.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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Work done:
We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made inquiries of the Company’s management, including the Sustainability Reporting team and those with responsibility for sustainability reporting, management and sustainability reporting;
- conducted interviews of personnel responsible for sustainability reporting data collection;
- performed analysis of the relevant policies and basic reporting principles, gaining an understanding and evaluating the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information;
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- reviewed the Selected Information for compliance with the disclosures with the requirements of the GRI Standards.

Reporting and measurement methodologies:
There are no globally recognized and established practices for evaluating and measuring the Selected Information. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organizations. The reporting criteria used as a basis of the Company’s sustainability reporting should therefore be read in conjunction with the Selected Information and associated statements reported on the Company’s website.

Limited assurance conclusion:
Based on the procedures we have performed and the evidence we have obtained:

- nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2018 has not been prepared, in all material respects, in accordance with the requirements of the GRI Standards; and
- nothing has come to our attention that causes us to believe that the Selected Information does not meet the Core requirements in accordance with the Guidelines of the GRI Standards.

24 July 2019
Moscow, Russian Federation

A.V. Davydova, certified auditor, (FAND No 000490), PwC PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Gazprom Neft

Independent auditor: PwC PricewaterhouseCoopers Audit

Registered by the Government, legal entity registration number 10277004727 on 20 February 2002 under No. and by

Russian Federation, 209031, St. Petersburg, Pulkovskiy pros., 3-5

Member of self-regulated organization of auditors "Russian Union of Auditors" (association)

Principal registration number of the audited entity in the register of auditors and audit organizations - 10949357947

*The responsibilities of the Company’s management in the preparation and presentation of the work, carried out by us, do not include an evaluation of the financial statements and, accordingly, we express no assurance on the financial statements. Further details are included in the report “Selected Information” on our website.
APPENDIX 5.
TERMS AND ABBREVIATIONS

A
APG
means associated (petroleum) gas, a mixture of gaseous hydrocarbons dissolved in oil and released during oil production

ASP (ALKALINE-SURFACTANT-POLYMER FLOODING)
means chemical technique for oil recovery enhancement where a mixture of anionic surfactants, sodium carbonate and polymer is injected into the reservoir

ASSETS, FACILITIES OR OPERATIONS
herein means PJSC Gazprom Neft’s subsidiaries and controlled entities

BBAZHENOV FORMATION, RESERVES OF THE BAZHENOV FORMATION
means a stratum in the West Siberian basin

C
CNG
means compressed natural gas

CO₂
means carbon dioxide

CORPORATE COMMUNICATIONS
means communications, including the exchange of information, between the Company and its stakeholders

E
EBITDA
means earnings before interest, tax, depreciation and amortisation

ENMS
means an energy management system

G
GRANT COMPETITION OF SOCIAL PROJECTS
means the social investment tool used by the Company to select, on a competitive basis, and support projects addressing the key social issues in its regions of operation. Grant competitions are part of the Home Towns social investment programme

GRI (GLOBAL REPORTING INITIATIVE)
means an international organisation developing and promoting a recognised and credible sustainability reporting framework that can be applied by all organisations regardless of their size, sector or location

GRI STANDARDS
means the latest version of the internationally accepted sustainability reporting framework developed by the Global Reporting Initiative (GRI)
HEADQUARTERS / CORPORATE CENTRE
means the management company PJSC Gazprom Neft

HOME TOWNS
means Gazprom Neft’s social investment programme seeking to tackle the most pressing social and economic development issues across its footprint, among other things, through cooperation with local communities. The programme focuses on urban development (housing construction and improvement of public areas), creation and development of mass and children’s sports infrastructure, support of sports organisation and events, backing and promotion of education, preservation and development of local cultural potential, and cooperation with indigenous northern minorities

HSE
means health, safety, environment and civil defence

IFRS
means International Financial Reporting Standards

IRMF
means an integrated risk management framework. Risk management is a continuous streamlined process to identify, assess, monitor and respond to risks at all corporate levels

ISO 26000
means an international social responsibility standard published in 2010 and aimed at all companies and sectors. It is a set of guidelines defining the general terms and principles of socially responsible activities

LPG
means liquefied petroleum gas

LTIF (LOST TIME INJURY FREQUENCY)
means the number of lost time injuries occurring in a workplace per 1 million hours worked

MOTOR FUEL CLASS
means an emission standard introduced by Russia’s Technical Regulations On Requirements to Motor and Aviation Gasoline, Diesel and Bunker Fuel, Jet Fuel and Fuel Oil similar to European standards. For example, class 5 is equivalent to Euro-5 as per the Technical Regulations

MUD PIT
means facilities designed for the storage of drilling waste

NON-FINANCIAL REPORTING – see Sustainability Reporting

NOx
means nitrogen oxides

NPO
means a non-profit organisation
ABOUT THE REPORT
MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD
GAZPROM NEFT TODAY
FINANCIAL EFFICIENCY
SUSTAINABILITY STRATEGY
SUSTAINABILITY MANAGEMENT AND STAKEHOLDER ENGAGEMENT

O
OE means oil equivalent

OILFIELD SERVICES
means oil and gas field services, including drilling of wells, installation of drilling rigs and multi-well pads, well workover, and repairs of drilling equipment

OMS
means operations management system

P
PETROLEUM SLUDGE
means a physical combination of several compounds, such as water, petroleum products and mineral matter (clay, metal oxides, sand, etc.)

PRMS (PETROLEUM RESOURCES MANAGEMENT SYSTEM OF THE SOCIETY OF PETROLEUM ENGINEERS)
means an international framework developed for the estimation and management of hydrocarbon resources. It focuses on whether the resources are potentially available and economically recoverable

R
R&D
means research and development

RSPP
means the Russian Union of Industrialists and Entrepreneurs

S
SO₂
means sulphur dioxide

STAKEHOLDERS
means an entirety of individuals and legal entities that have interest in the Company’s operations. They can affect or be affected by the Company’s actions and performance

SUSTAINABILITY (NON-FINANCIAL) REPORTING
means a framework (processes) to collect, consolidate, analyse and present information on the balance between the financial, industrial, social and environmental aspects of the Company’s performance. It sets out the principles and ways of embracing interests of numerous stakeholders and managing stakeholder relations when tackling issues important for the Company and society as a whole

SUSTAINABLE DEVELOPMENT
means development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The definition was introduced by the UN’s World Commission on Environment and Development in the Our Common Future report. Quoted after Sustainability Reporting Guidelines Version 3.0. Translated from English. GRI, 2006

TFE
means a tonne of fuel equivalent

UN SDGS
means the Sustainable Development Goals adopted by the UN member states in 2015

V
VOC
means volatile organic compounds
Dear readers,

We would be genuinely grateful if you could take the time to provide feedback on this Report. Your disclosure assessments and recommendations help us improve both the quality of our non-financial reporting and the efficiency of our operations.

To express your opinion or ask any questions, feel free to get in touch with us by using any of the below contacts.

All the questions and opinions will be taken into consideration by officers responsible for drafting Gazprom Neft’s next sustainability report.

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