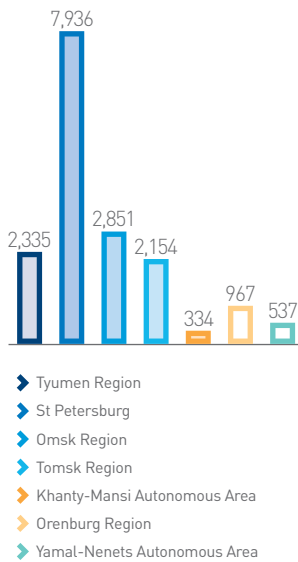


SUPPLY CHAIN

In its cooperation with counterparties, Gazprom Neft focuses on being open to the market, offering fair prices, and building long-term structured relationships.

Materials and equipment procured from suppliers based in the Company's significant locations of operation¹

(P m)



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.

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.