ABOUT THE REPORT
This Report by Public Joint Stock Company Gazprom Neft (Gazprom Neft PJSC, the Company) for 2018 includes the results of Gazprom Neft and its subsidiaries, collectively referred to as the Gazprom Neft Group (the Group). Gazprom Neft PJSC is the Group’s parent company which provides consolidated information about the operating and financial activities of the Group’s key assets for the purposes of this Annual Report. The list of subsidiaries covered in this Report and the shares held by Gazprom Neft PJSC in their capital are disclosed in notes to the consolidated IFRS financial statements for 2018.

This Report is prepared based on analysis of operational data, consolidated IFRS financial indicators and international GRI guidelines. Information provided in the Report has been verified by the Audit Commission and approved by the Board of Directors and the Annual General Meeting of Shareholders of the Company.

In calculations of shares, percentages, and total amounts, the Annual Report may contain discrepancies as a result of rounding.

Data provided in the Annual Report may differ insignificantly from previous disclosures, also as a result of rounding.

The Annual Report of Gazprom Neft PJSC has been provisionally approved by the Board of Directors, Minutes No. PT-0102/19 dated 19 April 2019.
OUR COMPANY TODAY

Gazprom Neft PJSC (the Company or Gazprom Neft) is a vertically integrated oil company, primarily engaged in oil and gas exploration and production, refining, and the production and sale of petroleum products.

The Company operates in Russia’s key crude oil producing regions, while also maintaining a presence overseas. The core production sites are located in the Khanty-Mansi Autonomous Area, Yamal-Nenets Autonomous Area, Tomsk Region, on the Arctic Shelf, and in the Far East.

Gazprom Neft matches the world’s largest oil companies in terms of proved reserves under the PRMS.

1,564 MTOE proved reserves
92.9 MTOE hydrocarbon production
42.9 MT oil refining
799.5 PBN adjusted EBITDA

*Petroleum Resources Management System

PRIRAZLOMNOYE
First – and, thus far, only – oil production project on the Russian Arctic Shelf

NOVY PORT
A unique logistics scheme ensuring uninterrupted year-round deliveries of Arctic oil

MESSYAKHA
Russia’s northernmost onshore field

LEADER IN THE COMMERCIAL DEVELOPMENT OF THE ARCTIC

LEADER OF INDUSTRY-WIDE TECHNOLOGY PROJECTS

500+
Digitalisation
Bazhen
operator of a national project to create technologies for developing hard-to-recover oil
## INVESTMENT CASE

<table>
<thead>
<tr>
<th>Extensive Resource Base</th>
<th>Higher Refining Margin as a Result of Refinery Upgrades</th>
<th>New Digital Technologies in The Petroleum Products Sales Chain</th>
<th>Managing the Value Chain as a Single Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Efficiency and Industrial Safety Framework Across All Lines of Business</td>
<td>Flexible Decision Making in Investment Activities</td>
<td>Ambitious Goals in Environmental Protection and Social Responsibility</td>
<td>Growing Operating Cash Flow and Dividend Payments</td>
</tr>
</tbody>
</table>

### 2025 GROWTH STRATEGY
- Production -100 mtoe
- Refining volumes in Russia -40 mt
- Sales via directly-owned channels - 100%

### 2030 EXCELLENCE STRATEGY
- Maximizing added value from every barrel
- Maintaining a position among the top 10 public liquid hydrocarbon producers by volume (assuring annual production growth in line with industry)
- Leading the market by ROACE (at least 15%)
- Securing industry leadership in technology, efficiency and HSE

### MARKET VALUATION
- **Average Analyst Share Target Price**: ₽396
- **Upside Potential (as price as at 25 March 2019)**: +23%

### MARKET CAPITALISATION AND SHAREHOLDER RETURN
- **Consistent Growth in Dividends**
  - Percentage of net profit (IFRS)
  - Total dividends per share

### DIVIDENDS
- **35%+ net-profit dividend distribution in 2018 (IFRS)**

### RECORD-BREAKING CAPITALISATION
- **₽1.6 TN**
  - MARKET CAPITALISATION
  - As at 31 December 2018
  - Share price growth in 2018

## THE COMPANY’S POSITION IN THE INDUSTRY

### No. 1
- **₽299.5 BN**
- Adjusted EBITDA

### No. 2
- **8.35 MT**
- Gasoline production in Russia

### No. 3
- **3.28 MT**
- Production of aviation fuel in Russia

### No. 4
- **84.0%**
- Refining depth

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*Based on data by CDU TEK for vertically integrated oil companies.*
In 2018, the Company delivered a solid growth in revenue, EBITDA and net profit while also reducing leverage, making it possible to distribute more dividends and plan new ambitious projects.

### Growing hydrocarbon production

**Hydrocarbon production (mtoe)**

<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>Units</td>
<td>66.3</td>
<td>79.7</td>
<td>84.2</td>
<td>88.3</td>
<td>92.9</td>
</tr>
</tbody>
</table>

Production growth was predominantly driven by the Company’s largest projects, the Prirazlomnoye, Novoportovskoye and Vostochno-Messoyakhskoye fields. Considerable impact also came from a greater interest in Arcticgas and production being launched at the Tazovskoye field.

For more details, see the Resource Base and Production section on p. 52.

### Effective oil refining

**Oil refining (mtoe)**

<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>Units</td>
<td>13.8</td>
<td>13.1</td>
<td>12.2</td>
<td>11.4</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Expansion of the Group’s resource base in 2018 was supported by an improved exploration and production drilling technology. The Company also obtained more than 20 licences through licence auctions, exploration requests, and M&A deals. A total of four new fields and 27 hydrocarbon deposits were discovered and recorded in the Russian State Register of Mineral Reserves in 2018.

For more details, see the Oil Refining section on p. 74.

### Strong financial performance

**Adjusted EBITDA (₽ bn)**

<table>
<thead>
<tr>
<th>Year</th>
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<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>342.6</td>
<td>404.8</td>
<td>456.2</td>
<td>551.0</td>
<td>799.5</td>
</tr>
</tbody>
</table>

The solid growth was driven by favourable oil prices globally and domestically, successful development of new upstream projects, and increased operating efficiency.

For more details, see the Financial Results section on p. 102.

### Revenue (₽ bn)

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<thead>
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<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>1,408.2</td>
<td>1,467.9</td>
<td>1,545.6</td>
<td>1,934.6</td>
<td>2,489.3</td>
</tr>
</tbody>
</table>

The Company’s revenue went up by 28.7% to ₽ 2.49 tn, which was driven by a favourable pricing environment, improved operational efficiency and consistent production growth at the Novoportovskoye, Prirazlomnoye and Vostochno-Messoyakhskoye fields.
DEAR SHAREHOLDERS AND INVESTORS,

2018 marked a period of rapid growth for Gazprom Neft. We solidified our Top 3 position in oil upstream and downstream in Russia as we added new technology competencies and improved operating efficiency across the board.

The Company continued its successful Arctic projects by developing the Prirazlomnoye, Novoportovskoye, and Vostochno-Messoyakhskoye fields. Today, these assets are strong contributors to the Company’s total oil output.

In 2018, Gazprom Neft added two state-of-the-art icebreakers to its Arctic fleet, which helps transport ARCO and Novy Port oil to the global market.

At the same time the Company is building a promising new oil cluster in Russia’s Far East. Last year, the Company discovered Triton, the second deposit off the shore of Sakhalin that became a Top 10 oil discovery globally in 2018.

One of Gazprom Neft’s key focuses in technology is to look around for innovations as a way to develop and put on stream unconventional and hard-to-recover reserves.

As part of this commitment that benefits the Russian industry at large, Gazprom Neft established the new Bazhen Technology Centre in the Khanty-Mansi Autonomous Area. The aim is to come up with a bundle of domestic technologies to tap into the deep but promising Bazhenov Formation. Gazprom Neft is also planning to pilot ways to develop the Achimov deposits. To this end, a new technology testing site is being built on the Yamal Peninsula.

We are enhancing our relations with partners. A case in point is sealing the deal with Mubadala Petroleum, one of the UAE’s largest investments funds, and the Russian Direct Investment Fund (RDIF) to jointly develop fields in Western Siberia.

The Company is engaged in comprehensive projects to upgrade its refining capacities in Russia and Serbia. Going forward, this will enable greater refining depth and higher output of light products. The programme aims to ensure maximum refining efficiency while keeping the environmental footprint as low as possible. Based on the Company’s successful track record of introducing innovative environmental technologies, in 2018 the Omsk and Moscow refineries acted as pilot sites to develop unified federal requirements for industry-specific air quality monitoring systems at industrial facilities.

Gazprom Neft continues its efforts to drive premium channels to sell its products. As evidenced by independent research, Gazprom Neft’s retail network is one of the most popular with Russian car owners. The Company is expanding its geography by launching new products and introducing cutting-edge solutions in the sales segment. In 2018, Gazprom Neft ramped up its sales of jet fuel, bitumens, bunker fuel with enhanced environmental features, and oils and lubricants.

With successful projects under its belt, the Company improved its key financial metrics and increased dividends to shareholders. As its net profit surged almost 1.5 times, Gazprom Neft delivered a solid ROACE. It is one of the key indicators in Gazprom Neft’s new long-term strategy, which was approved by the Board of Directors in 2018 and sets out areas of focus beyond 2025 based on emerging trends in the energy market. It is my firm belief that the new strategy will support the Company’s ongoing value growth and make Gazprom Neft one of the global oil industry leaders.
STATEMENT BY THE CHAIRMAN OF THE MANAGEMENT BOARD

DEAR SHAREHOLDERS AND INVESTORS,

True to its key principles of efficiency, technology and safety, Gazprom Neft kept on steadily expanding in 2018 across all of its business lines. The Company managed to deliver strong operating and financial results despite a challenging environment in the global market of crude oil and petroleum products.

Over the last year, Gazprom Neft increased its output by 3.5% to 12.9 mt. The continuous growth of production is due to active development of our Arctic projects on the Prirazlomnoye field, the Novoportovskoye field and the Vostochno-Messoyakhskoye field. The Novoportovskoye field is one of the Company’s fastest growing assets. Its output rose by more than 40% y-o-y as we continue large-scale investments developing this strategic project. In 2018, two Russian-made cutting-edge icebreakers Alexander Sannikov and Andrey Vilkitsky entered service to support uninterrupted oil shipment from the Novoportovskoye field. The Company was stepping up its resource base, having obtained over 20 licence blocks in 2018, including those in the Karabashsky zone, south of Yamal, the Krasnoyarsk Territory and the Orenburg Region. A new field named Triton and containing an estimated 137 mtoe in reserves was discovered offshore the Sea of Okhotsk. The reserves of the Neptune field discovered on the same Ayashsky licence block a year before now stand at 415.8 mtoe, which is 1.6 times more than the initial estimate. Thus, total oil in place across the Company’s offshore projects in Sakhalin now exceeds 550 mtoe.

In 2018, Gazprom Neft increased refining throughput by 7% to 42.9 mt due to a balanced refining capacity utilisation as we keep on upgrading our refineries and implementing high-impact environmental projects. The Company went on developing its retail network. We started building up our own bitumen terminal network on the basis of the newly acquired high-tech manufacturing and logistics terminal in the Rostov Region. Gazprom Neft was the first Russian vertically integrated oil company to launch its own mobile app to facilitate online payments at its filling stations.

In 2018, we commissioned Lakhta Centre, Europe’s tallest building. The Company proved that its underlying project-based approaches focused on technology and talent management are equally efficient for the oil industry and complex projects elsewhere.

For many years, Gazprom Neft has been at the leading edge of the national oil industry in terms of maximising the efficiency of all business processes. In 2018, the Company achieved record-high financial performance, greatly boosting revenues, net profit and free cash flows while also reducing its leverage. In 2018, Gazprom Neft posted the highest profit in its history surpassing the 2017 record figures.

The Company’s achievements won the praise of investors. 2018 saw Gazprom Neft’s rouble-denominated share price adding 43% and reaching an all-time high. The partnership of Gazprom Neft, Mubadala Petroleum and RDIF using the capacities of Gazpromneft-Vostok is strongly corroborative to the Company’s investment case among foreign investors.

In 2019, the Company sets off to achieve new ambitious goals. At the end of last year, Gazprom Neft’s Board of Directors approved the new 2030 development strategy. We intend to grow ahead of the market aiming to become a Top 10 public player in terms of liquid hydrocarbon production volumes, maximise value creation per barrel and maintain our return on average capital employed (ROACE) of least 15%. To achieve these goals, we are going to transform our entire governance system by reviewing its digital model, operations, organisation, and corporate culture.

I am confident that Gazprom Neft will keep on growing at a fast pace steadily working towards its strategic goals.

Alexander Dyukov
Chairman of the Management Board, CEO of Gazprom Neft PJSC
### 2025 STRATEGY IN ACTION

#### Exploration and Production

**PROVED RESERVES**

- **Target**: 1,500 mtoe
- **Actual**: 1,564 mtoe

**PROVED HYDROCARBON RESERVES**

- **Target**: 1,500 mtoe
- **Actual**: 1,564 MTOE

**PROVED RESERVES TO PRODUCTION RATIO**

- **Target**: At least 15 years
- **Actual**: 17 years (as at 31 December 2018)

**2P RESERVE REPLACEMENT**

- **Target**: At least 100%
- **Actual**: 121% (excluding acquisitions)

**ANNUAL HYDROCARBON PRODUCTION**

- **Target**: 100 mtoe
- **Actual**: 92.9 mtoe

The Company relies on state-of-the-art technologies and a balanced investment policy to effectively replace its base of proved reserves. 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. The Company’s 2025 Strategy is on target.

- **Exploration and development**: see p. 55
- **Discovery of the Triton field**: see p. 58

#### Refining

**REFINING IN RUSSIA**

- **Target**: 40 mt of oil
- **Actual**: 39.4 MT

**THROUGHPUT**

- **Target**: 95%
- **Actual**: 84%

**REFINING DEPTH**

- **Target**: 80%
- **Actual**: 64.8%

**LIGHT PRODUCT YIELD**

- **Target**:
- **Actual**:

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.

#### Sales

**Sales**

- **Target**: 100% of production volumes of the Company’s refineries sold via its own sales network
- **Actual**: 100% of petroleum products from the Company’s refineries sold via its own sales network
Sustainable development

HEALTH, SAFETY AND ENVIRONMENT

The Company’s key HSE 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 safety rules;
- maintenance of safe working conditions and workplaces that fully meet statutory and corporate safety requirements;
- provision of personal protective equipment;
- occupational health initiatives;
- comprehensive HSE training;
- analysis and implementation of cutting-edge safety technologies.

ENERGY CONSUMPTION AND EFFICIENCY

The Company’s Upstream Division exceeded 2018 targets under its energy efficiency programme by 72%, with energy savings across the division amounting to 442 m kWh (vs the 2018 target of 269 m kWh).

The Downstream Division’s energy savings under its energy saving and energy efficiency programme amounted to 170,400 Gcal of heat, 50,900 tonnes of natural fuel and 9.3 m kWh of electric power.

TALENT POOL DEVELOPMENT

Gazprom Neft’s status as one of the country’s leading employers was confirmed by high scores in Russian and international rankings such as Randstad Award, HeadHunter Top Employer 2018, and Universum Top 100 Russia 2018.

Business Ecosystem

SUPPLY CHAIN 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.

BUILDING AN ECOSYSTEM TO DEVELOP NEW TECHNOLOGIES IN COOPERATION WITH PARTNERS

Gazprom Neft’s project to set up a centre for developing the Bazhenov formation based on domestically produced advanced equipment and technology now qualifies as nationally important.

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

2018 MILESTONES:
- Four import substitution projects funded by the Fund for the Promotion of R&D Start-ups
- Four strategic partnership agreements signed
- Cooperation agreements signed with Lukoil and Tatneft
- Joint working groups with Gazprombank and HMS Group up and running

34 import substitution strategies and roadmaps launched in 2018
50 unique products developed in the past five years
170 products being developed

IMPORT SUBSTITUTION

Supply chain responsibility: see p. 211
Use of neural networks to enhance health and safety: see p. 212
Health, safety and environment: see p. 211
Energy consumption and efficiency: see p. 219
Talent pool development: see p. 221
Supply chain responsibility: see p. 228
Import substitution: see p. 122
Bazhen Technology Centre: see p. 119
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SHAREHOLDERS AND INVESTORS

LEADERSHIP IN THE RUSSIAN OIL AND GAS INDUSTRY BY RETURN ON INVESTED CAPITAL FOR SHAREHOLDERS

In 2018, the Company achieved record-high financial performance vs industry peers consolidating its leadership by ROACE. Further efficiency improvements will help the Company maintain its positions and meet the 2025 Strategy targets.

*Investor and shareholder relations: see p. 198

SOCIAL INVESTMENTS

HOME TOWNS SOCIAL INVESTMENT PROGRAMME

This is one of the most successful and popular business initiatives for the development of local communities in Russia. Under the programme, all projects of any size and scale, be it pint-size volunteer campaigns, town celebrations or major international festivals, seek to tackle very specific and intrinsic problems within the Company’s footprint.

2018 RESULTS:

2018 results:

+45.1% adjusted EBITDA growth

11% dividend yield in 2018

22.0% ROE (return on equity)

19.7% ROACE (return on average capital employed)

SHAREHOLDERS AND INVESTORS

2018 RESULTS:

₽ 6.8 BN spent on social investments

250+ social projects implemented

CONTRIBUTING TO A HIGHER SUSTAINABILITY OF THE OIL INDUSTRY

2018 MILESTONES:

> Gazprom Neft actively trades in Urals futures contracts on the SPIMEX.1
> The Company supported the commitments of the Russian Federation under the OPEC+ deal
> Gazprom Neft actively contributed to stabilising prices in the Russian market of petroleum products in 2018
> Focus on cutting-edge technologies helps extend the productive life of mature fields

CONTRIBUTING TO TAX REVENUES AT EVERY GOVERNMENT LEVEL

₽ 800+ BN paid in taxes and other statutory deductions

ENVIRONMENT

LAND AND VEGETATION PROTECTION

2018 MILESTONES

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

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 to one metre.

At the end of 2017, Gazprom Neft launched a new stage of the project – Green Seismic 2.0, which aims to narrow the source line width to 1–3 m.

1.8 m trees saved thanks to the Green Seismic project

*Saint-Petersburg International Mercantile Exchange.

BIODIVERSITY PRESERVATION

Biodiversity preservation programmes are rolled out across all of the Company’s Russian assets.

Biodiversity preservation: see p. 218

Narwhal research programme: see p. 218

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Values

SHAREHOLDERS AND INVESTORS
- Long-term growth of the Company’s value and a high dividend yield
- Ongoing communications with investors, shareholders and analysts to support a fair price for the Company’s securities
- Developing a corporate governance system that balances compliance with the best Russian and international practices with industry-specific routines
- Information transparency in covering the progress of the Company’s development strategy
- Equitable dividend policy
- Respect for minority shareholder rights
- Continuous improvement of the Company’s risk management system with a detailed elaboration of responsibilities

CONSUMERS AND CUSTOMERS
- Stable supply of available eco-friendly petroleum products with a high consumer appeal
- Expanding direct sales to corporate customers through the Company’s own distribution network
- Expanding Gazprom Neft’s filling station network and developing the loyalty programme
- Partnership with leading petroleum product consumers
- Developing and manufacturing products with enhanced consumer and environmental features
- Increasing the efficiency of sales channels through business process digitalisation and enhanced communications with customers and counterparties

PERSONNEL
- Stable employer that offers professional development opportunities to employees
- Attractive remuneration package
- Ongoing personnel recruitment and rotation
- Talent pool management, competency development, and training
- Developing an incentive system and engagement culture
- Increasing labour productivity and organisational efficiency
- Improving HR effectiveness

SOCIETY AND LOCAL COMMUNITIES
- Responsible business and development of local communities
- Massively contributing to tax revenues for local budgets
- Facilitating the development of social infrastructure
- Mitigating the environmental impact
- Support for local communities

GOVERNMENT
- Energy security
- Tax payments
- Technological development 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

How we do it

SHAREHOLDERS AND INVESTORS
- Leadership in premium markets
- Best in Russia sales per filling station at 20.7 tonnes per day
- 11.1 million consumers participating in the Gazprom Neft loyalty programme
- All petrol stations comply with Euro-5 emission standards
- 260 airports serviced in Russia and 66 countries globally
- 30 ports serviced in Russia, Romania, Latvia and Estonia
- 1.2 bunkering barges, 4 shuttle tankers and 2 icebreakers making up Gazprom Neft’s bunkering fleet
- Gazprom Neft’s lubricants sold in 78 countries
- Russia’s first own bitumen terminal network is being launched

CONSUMERS AND CUSTOMERS
- Gazprom Neft’s ongoing projects serve its long-term goals:
  - Upstream projects such as Novy Port, the Tazovskoye and Sverdovskoye fields, oil rims, the Orenburgskoye field, the Prirazlomnaya field, the Mossosoyka fields as well as value accretive initiatives based on new technologies, high-tech wells, enhanced oil recovery technologies along with putting on stream unconventional reserves;
  - Downstream projects focused on refinery upgrades which, if delivered on time, will help increase the refining depth and efficiency, and the catalyst production project;
  - Sales initiatives aimed at developing a distribution network for high-value-added petroleum products, launching new products into the market, expanding sales capacities, enhancing the network efficiency and mainstreaming digitalisation.

SOCIETY AND LOCAL COMMUNITIES
- Gazprom Neft is one of the largest taxpayers across its footprint
- ₽6.8 bn spent on more than 250 social projects under the Home Towns programme in 2018
- In 2018, the Company put into effect social and economic agreements with governments across 26 Russian regions and 20 municipalities.

How we do it

PERSONNEL
- Recognised as one of the country’s leading employers by Randstad Award, HeadHunter and Universum Top 100 Russia 2018
- Average monthly salary of ₽122,600 (+8.5% y-o-y)
- Gazprom Neft’s closure price was ₽364.7 per ordinary share (up +63% vs the beginning of the year)
- Dividend payout amounting to 35% of Gazprom Neft’s 9M 2018 consolidated IFRS financial result
- 11% dividend yield in 2018

SUSTAINABLE DEVELOPMENT
- As at 31 December 2018, Gazprom Neft’s net profit was ₽364.7 per ordinary share (up +63% vs the beginning of the year)
- Dividend payout amounting to 35% of Gazprom Neft’s 9M 2018 consolidated IFRS financial result
- 11% dividend yield in 2018

APPENDICES

Results

CONCLUSIONS

In 2018, the Company developed a clear vision on how to deliver on the 2025 Strategy across all of its business lines, with some of its targets already met.
MARKET OVERVIEW

Throughout 2018, the global oil market saw mixed trends in demand and supply. The fast growing consumption of liquid hydrocarbons was followed by an oversupply in 2H 2018. Though the rising supply of crude oil was mainly driven by shale projects in the USA, other oil producing segments were also benefiting from a revival in investments. However, the prices remained volatile due to fast-changing demand and supply and geopolitical factors. OPEC+ countries were tweaking production volumes in response to market fluctuations. The year-average price of Brent crude stood at $71 per barrel.

The macro environment is very uncertain now. The number of global trends affecting energy consumption is increasing, making it hard to predict which one will be game-changing. As such, the global population growth drives consumption, which contradicts with the energy saving trend. Technology advancements made it possible to put on stream new reserves categories globally. It is a serious challenge. In this context, the Company needs to improve its planning and forecasting capabilities while maintaining its flexibility and responsiveness.”

Alexei Yankevich
CFO

The rising production in the USA was partially offset by a lower output in Venezuela and, later, Iran whose oil exports suffered from renewed U.S. sanctions. However, the market seemed to be balanced in 1H 2018. At the start of 2018, OECD commercial reserves reached the 5-year average target in line with the OPEC+ agreement. This allowed OPEC+ countries to ease oil cuts in the run-up to summer. By the end of 2018, the oversupply became obvious thus forcing OPEC+ to decide on new oil cuts.

Global energy markets

FRAGILE BALANCE IN THE GLOBAL OIL MARKET

According to the International Energy Agency (IEA), the global market of liquid hydrocarbons progressed from undersupply in 2017 to oversupply in 2018. At the end of 2018, the oversupply reached 2.3 mbd while the year-average oversupply stood at 0.9 mbd. This imbalance emerged amidst the steadily growing demand mainly due to liquid hydrocarbon production ramping up in the USA, which was outpacing the rise in global consumption. The incremental supply of liquid hydrocarbons in the USA exceeded 2 mbd, including biofuel and liquefied petroleum gas (LPG). The rising production in the USA was in line with the OPEC+ agreement. This allowed OPEC+ countries to ease oil cuts.

The rising production in the USA was partially offset by a lower output in Venezuela and, later, Iran whose oil exports suffered from renewed U.S. sanctions. However, the market seemed to be balanced in 1H 2018. At the start of 2018, OECD commercial reserves reached the 5-year average target in line with the OPEC+ agreement. This allowed OPEC+ countries to ease oil cuts in the run-up to summer. By the end of 2018, the oversupply became obvious thus forcing OPEC+ to decide on new oil cuts.

The oil prices remained highly volatile due to a fragile balance of demand and supply, geopolitical tensions and fast-changing sentiments in financial markets. Despite OPEC+ attempting to enforce countercyclical production tweaks, Brent crude prices used to swing in a very wide range from $50 to $87 per barrel. The year-average price of Brent crude was around $71 per barrel or $54 in 2017. Though the supply was adequate or even in surplus, oil prices remained relatively high, in particular from the sanctions against Iran resumed by the US. In May 2018, the USA announced that it would withdraw from Iran nuclear deal and decided to resume sanctions from August. Before the restrictions on Iran’s energy sector came into effect in November, some buyers started refusing Iranian oil, which resulted in a slump in the country’s production. As a result, the USA temporarily allowed key importing countries to keep buying Iranian oil, which contributed to a drop in oil prices in November. The demand and supply balance in 2019 will depend largely on whether sanctions against Iran continue and the USA in enforcing them.
SLOWER GROWTH OF CONSUMER DEMAND AND STATE OF GLOBAL ECONOMY

In 2018, the global consumption of liquid hydrocarbons continued to grow, though at a slower pace. According to the IEA, the demand for liquid hydrocarbons added 1.3 mbd in 2018 vs 1.5 mbd a year earlier.

China was facing a slowdown in consumption of petroleum products driven by much lower growth rates of its GDP and industrial output. The USA accounted for the bulk of global consumption growth, with demand for liquid hydrocarbons (mainly LPG) rising by 0.5 mbd, based on U.S. Department of Energy estimates. Thus, the global oil market became even more dependent on the U.S. economy in terms of both supply and demand.

The U.S. economy was gaining momentum and contributing to the global economic growth which the International Monetary Fund estimates at 3.7% in 2018. However, the IMF expects the economic growth to be rather slower than faster in 2019-2020. Economists’ concerns mainly stem from the sagging trade wars and the rising global debt burden, possibly resulting in adverse sentiments across financial markets.

The global debt burden becomes even more critical as key economies are stepping up interest rates. Throughout 2018, the U.S. Federal Reserve rose its rate by a total of 1 pp, which affected the yields on U.S. Treasury bonds and other debt instruments. The European Central Bank kept a zero rate but is likely to start scaling back its monetary stimulus going forward. The pending Brexit as well as the last year’s failure to agree on its terms raise additional tensions.

The global automotive industry evidently slowing down which is also a sign of restrained economic sentiment. In 2018, passenger car sales remained flat in the USA and Europe but dropped by 4% in China, driven by shrinking incentives in the Chinese car market, the trade conflict between China and the USA and tougher environmental requirements in Europe.

The anti-diesel trend was unfolding in Europe with sales of diesel cars plummeting due to more stringent emission regulations. This trend is likely to have a material effect on future consumption patterns in one of the world’s largest markets of petroleum products.

As the car markets were slowing down, the electric transport was booming. Based on estimates by industry experts, EV sales (including plug-in HEVs) grew by 70% to 2 million in 2018, half of which were sold in China. Thus, EVs now account for more than 2% of global car sales.

Following a peak in 2017, growth in air transportation slowed down in 2018 globally. Based on estimates by the International Air Transport Association (IATA), the passenger turnover added 6.5% and the air cargo traffic rose by 3.5% vs 9% and 7.9% in 2017, respectively. Despite a slowdown, aviation remains a key growth area for the global market of petroleum products.

The chemical industry is another fast-growing segment driving the demand. Based on the current IEA forecast, the petrochemical industry is likely to account for a third of the incremental global oil consumption until 2030 and up to a half by 2050. In addition, petroleum feedstocks will see tough competition from hydrocarbon gases being increasingly produced in the USA increasing feedstock availability for the chemical industry.

The USA accounted for the bulk of global consumption growth, with demand for liquid hydrocarbons (mainly LPG) rising by 0.5 mbd, based on U.S. Department of Energy estimates.
Oil and gas majors became increasingly focused on shale projects aiming to achieve more flexibility in terms of production and investments in a volatile market environment. These companies are less sensitive to oil price fluctuations than small independent producers. Bigger players are capable of increasing shale production even when the market environment is not at its best. The investment surge in investment involving both conventional and unconventional reserves is likely to escalate competition among producers going forward.

Oil and gas companies worldwide seek to enhance flexibility by investing in shale projects and managing their asset portfolios more actively but, more importantly, they also become more savvy in cutting-edge digital and Industry 4.0 technologies. The industry is leveraging new digital solutions to boost operational efficiency across the entire value chain and look for new business models. Global majors are developing and implementing digital strategies and organisational changes to streamline IT solutions.

Investments by global oil majors

Source: Company data, Gazprom Neft estimates

Oil and gas majors continued their expansion into new business segments. The European and U.S. players focused their diversification efforts mainly on low-carbon energy, with some companies starting to create value chains in electricity generation. They continued to set up standalone businesses to develop low-carbon energy as well as other projects. The industry is heavily investing in electricity generation and distribution, energy storage technologies and alternative fuel. The global climate and environmental policies make these focus areas even more attractive. Low-carbon technologies are also favoured by investors. These two factors seem to persist, thus supporting western oil and gas companies’ diversification.

KEY DRIVERS OF THE OIL MARKET IN 2018

- Strong growth of global economy and oil consumption
- OPEC+ deal success
- Rapid growth of shale production
- Gradual recovery of investments in conventional projects
- Political turmoil in some oil producing regions
The Russian oil industry

OPERATING RESULTS
In 2018, the Russian oil industry effectively benefited from a positive market environment and the revised OPEC+ agreement. Russia produced 555.84 mt of oil and condensate, up 1.6% y-o-y, with strongest growth posted in 2H 2018 when OPEC+ countries decided to ramp up production to replace declining volumes from Iran and Venezuela. The situation changed in late 2018 urging Russia to cut production under the OPEC+ agreement by another 228 kbd relative to October 2018.

Despite rising production in 2018, oil exports from Russia remained flat at 258.2 mt while Russia was expanding East-bound shipments and scaling down European supplies. In 2018, Russia remained the largest oil exporter to China, well ahead of Saudi Arabia.

According to CDU TEK, Russia increased refining throughput by 2.5% to 286.99 mt in 2018 vs 279.98 mt in 2017 while heating oil production continued to decline (down 5.9% y-o-y), gasoline and diesel fuel output was marginally rising and jet kerosene supplies were soaring (up 11.2% y-o-y). Therefore, the Russian oil refining industry confirmed the effectiveness of ongoing refinery modernization and its adaptability to market changes.

MACRO ENVIRONMENT
The Russian economy was steadily growing throughout the entire year. According to Rosstat, the national GDP grew 2.3% in 2018, delivering record-breaking performance since 2012, which was supported by similarly strong industrial output (up 2.9% y-o-y) largely driven by the mining industry, with natural gas and gas condensate production rising by 16.5%.

The manufacturing industry was also growing, though at a slower pace. The industrial growth was backed by rising retail sales (up 2.6% y-o-y) and other economic indicators. In 2018, the household disposable income returned to growth (up 0.1% y-o-y) for the first time in several years.

The consumer inflation gained momentum following a slowdown in 2017. Consumer prices rose by 4.3%, which is slightly above the Russian Central Bank’s target of 4%. In this context, the Central Bank which was still proceeding with interest rate cuts in early 2018 then opted for a more conservative monetary policy in 2H 2018. At the end of 2018, the key interest rate stood at 7.75%, exactly where it had been a year before. Given that the basic VAT rate increase to 20% is likely to affect the overall inflation in 2019, there is every reason to believe that the Central Bank will maintain a moderate stance in 1H 2018.
The Russian economy is set to keep on growing in 2019 on the back of rising revenues from mineral resources coupled with recovering global prices for hydrocarbons, strong industrial output and other indicators. The oil industry will benefit from its intrinsic drivers. In 2018, for instance, air transportation growth continued in Russia. The passenger turnover added 10.6% while the air cargo traffic remained virtually flat.

**TAX POLICY AND REGULATION**

2018 saw major changes to tax and customs regulations affecting the oil industry, including:

- **Federal Law on Additional Income Tax (AIT) effective from January 2019,** that will be tested during the next few years on specific fields, including those operated by Gazprom Neft. The new tax regime seeks to reduce the total amount of fiscal payments that depend on gross metrics (MET and oil export customs duty) with the AIT being levied on the income from hydrocarbon extraction at a subsurface site.

- A set of federal laws adopted to establish a regulatory framework for the completion of the tax manoeuvre. The tax manoeuvre provides for the export customs duties on crude oil and petroleum products to be set to zero by 2024 along with the MET rates rising accordingly and a number of initiatives implemented to support those refineries that produce high-quality motor fuels. To prevent domestic petrol price hikes, the Government introduced a set of absorption coefficients to the excise duty on crude oil feedstocks factoring in export netbacks and wholesale prices for Euro-5 petrol and diesel fuel.

**GLOBAL TRENDS AND HOW THEY AFFECT OUR STRATEGY**

The global energy industry is changing drastically, which places high demands on oil and gas players in terms of efficiency, agility and flexibility. These priorities underpin our new strategy – the 2030 Strategy which seeks to achieve leadership by developing best-in-class organisational, technological and market competencies.

<table>
<thead>
<tr>
<th>Global trend</th>
<th>Industry challenge</th>
<th>Deliverables to be addressed by our Strategy</th>
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</thead>
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<tr>
<td><strong>ACCELERATING CHANGES IN ENERGY MARKETS</strong></td>
<td>Unstable and challenging market environment requires a careful and unbiased analysis, efficient planning and investment decision management.</td>
<td>Efficient asset portfolio management focused on a comprehensive scenario-based analysis, higher organisational flexibility and quicker decision making.</td>
</tr>
<tr>
<td><strong>RISING COMPETITION AMONG ENERGY PRODUCERS AND SOURCES</strong></td>
<td>Rising competition among market players requires maintaining high operating and economic efficiency across the entire value chain.</td>
<td>Sustainable scale of operations with a focus on high economic efficiency and maximum value creation per barrel.</td>
</tr>
<tr>
<td><strong>RISING COMPLEXITY</strong></td>
<td>Global oil and gas majors increasingly rely on hard-to-recover and unconventional reserves while developing their resource base. Continuous technology improvements drive production, refining and petrochemicals sectors.</td>
<td>Efficient development of new reserves both onshore and offshore. Development of unconventional and remaining reserves in place. Advanced refining, sales and development of catalyst production. Ecosystem to support R&amp;D partnerships.</td>
</tr>
<tr>
<td><strong>ACCELERATING IT TRANSFORMATION</strong></td>
<td>Energy markets and technologies are affected by IT transformation. Digital solutions are a game-changer in the industry.</td>
<td>Introduction of cutting-edge digital technologies set to enhance operational efficiency and transform business processes.</td>
</tr>
<tr>
<td><strong>GROWING IMPORTANCE OF ENVIRONMENTAL AND SOCIAL FACTORS</strong></td>
<td>Environmental and social factors become increasingly important for energy companies. More stringent environmental and personnel and community health and safety requirements are being imposed.</td>
<td>Commitment to the sustainable development principles and the highest standards in safety and social responsibility. Cultural transformation based on facilitative leadership.</td>
</tr>
</tbody>
</table>
Our vision
To evolve into one of the world’s best industrial companies that shapes the industry’s progressive transformation, makes the impossible a reality, 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.
Strategy 2030

The new Strategy – 2030 is rooted in the previous generation of the Strategy – 2025 and focuses on the Company’s market positioning, flexibility to external changes and transforming all of its 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.

GAZPROM NEFT – INDUSTRY BENCHMARK

Leadership areas
HSE (HEALTH, SAFETY AND ENVIRONMENT)
Goal Zero: no harm to people, environment and property in working process

EFFICIENCY
Maximizing added value from every barrel in any developing scenario of the oil market.

Initiatives in upstream:
- efficiency improvements in exploration activities;
- efficiency improvements in the new projects delivery;
- efficiency improvements in the exploitation of currently developed fields.

Initiatives in downstream:
- optimising product range of refining facilities and operational improvements;
- efficiency improvements in sales.

TECHNOLOGY
Creating technologies for the future development:
- growth of oil recovery factor in brownfields;
- development of multiphase fields and low-permeability reservoirs;
- production in the challenging Arctic environment;
- safe and effective offshore operations. Import substitution as a way to achieve technological leadership and sustainability.

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 strategic areas.

Strategic bets
DEVELOPING YAMAL
Pipeline construction from Novy Portovskoye 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 Sakhalin Island shelf.

UNCONVENTIONAL RESOURCES
Development of non-traditional reserves as Bazhenov Formation, Domanic and Paleozoic deposits

TECHNOLOGICAL DEVELOPMENT:
Commercializing residual reserves in existing company assets by using new technologies

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

MAXIMIZING ADDED VALUE FROM EVERY BARREL

Increased efficiency of value chain

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

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

IMPROVING 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 THE 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.

Transformations
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.

Development of competent ecosystem around the Company.

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

DIGITAL
Better and faster decision making by introducing digital technologies.
BUSINESS MODEL

Gazprom Neft’s business model relies on vertical integration.

BALANCED PORTFOLIO OF UPSTREAM ASSETS

Gazprom Neft’s portfolio includes a wide range of opportunities and vast resources to drive the Company’s ongoing growth. The 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 maximize profit in line with the market environment.

MODERN AND EFFICIENT REFINERIES

Strategically located upgraded capacities and ongoing projects to improve operating efficiency secure high performance of Gazprom Neft’s refineries. With a wide range of quality petroleum products, favourable locations and proximity to sales markets, Gazprom Neft can cover demand and meet the high standards of its customers.

OWN SALES NETWORK IN RUSSIA AND ABROAD

With an extensive sales network in Russia and globally, the Company can maximise the margin from oil and petroleum product sales to a wide range of customers, from retail consumers to large traders. The Company offers strong quality of services and products in the markets of motor fuel, bunkering, jet fuels, petrochemicals, lubricants, and bitumen materials.

### BUSINESS MODEL

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Rolling out Etalon OMS as the Company’s operational platform

The roll-out of Gazprom Neft’s Etalon Operations Management System (OMS) 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.

Up to ₽90bn expected annual EBITDA benefit from an industry-leading OMS level

**WHAT IS THE RATIONALE BEHIND THE COMPANY’S OPERATIONAL TRANSFORMATION?**

The need to rethink our approach to operations management has emerged following the recent economic turbulence coupled with a sharp drop in oil prices. Although we successfully navigated through the challenges, we need to stay sharp and focused on our efficiency as a key to sustainability and competitive power, whatever the market conditions.

**HOW WOULD THE OMS HELP GAZPROM NEFT MAXIMISE ITS EFFICIENCY?**

This will be achieved by introducing universally standardised practices and having all employees embrace the culture of continuous improvement based on:

- uniform management processes across the Company;
- uniform safety and reliability standards;
- employee involvement into decision making and generating ideas;
- clearing all sources of losses;
- implementing regular management practices and lean production.

**WHAT ARE THE ETALON OMS COMPONENTS?**

The OMS comprises 12 functional elements grouped into three major blocks: (1) operational culture, (2) operational reliability and safety and (3) operational efficiency.

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.

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.

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 Etalon OMS structure:
WHAT IS THE OMS CODE?
This acts as our operational charter, setting out all operations management system requirements. In developing the code, we relied on both industry and global best practices while also factoring in the specifics of our assets.

The OMS Code brings together company-wide requirements to equipment safety, reliability and integrity, process flow efficiency and staff expertise. It applies to all Gazprom Neft’s business units and subsidiaries. This means that both the Piatra Sliman oilfield offshore platform and our most remote filling station use one and the same management tools and safety standards, minimising the risk of failures and disruptions and maximising the existing operational potential.

WHAT WAS THE FIRST PART OF THE OMS ROLL-OUT?
During the first 18 months, we diagnosed the assets covered by all of the Company’s production divisions. The exercise proved universal applicability of the OMS requirements across our portfolio of assets while also measuring the gap against the target level of the management system’s maturity.

HOW DO YOU ASSESS THE MATURITY OF THE MANAGEMENT SYSTEM AT YOUR PRODUCTION ASSETS AGAINST ITS TARGET STATE?
The current state of the management system is assessed against granular OMS Criteria underlying a nine-level maturity scale. Three negative levels are assigned to assets that lack manager and employee engagement in their systematic development, are exposed to potential data manipulations or, even worse, to an unreasonable risk of massive accidents and equipment failures. The other six levels are positive.

Despite a mature or even more advanced level of operations management shown by our assets in terms of some criteria, the overall management system has been developing unevenly and ranks within the basic to mature range.

MANAGEMENT SYSTEM MATURITY SCALE
OMS is assessed against the Code’s requirements and is measured and visualised based on the OMS maturity scale.

WHAT ARE THE KEY TAKEAWAYS BASED ON THE FIRST STAGE OF THE OMS LAUNCH?
We have realised the urgent need for a cultural transformation at all levels and in all respects, be it choosing the right language to communicate the Company’s strategy to employees or the executive commitment to regular management practices.

The attitude of people is a very personal and emotional component critical to the success of any changes. If employees work as a team, this brings about meaningful synergies and helps to find the right solutions to the most challenging problems.

ETALON OMS MILESTONES

2019 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
- Maximize 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 at the Company and its contractors and suppliers
- Maintain and promote the culture of continuous improvement

For more details on the pilot case study, see the Oil Refining section on p. 74
Transition to a network-based organisational structure, focus on flexibility and building up a wider ecosystem around the Company

A much faster response and decision making are critical for achieving the Company’s strategic goals and succeeding in a highly competitive and volatile environment. Leveraging new governance and collaboration models governing the Company’s internal processes and extending to its key partners is the way to overcome these challenges.

Gazprom Neft has built a powerful team of minds capable of driving transformation both internally and beyond the Company. The ongoing strategic change has affected not only our quantitative performance but also the very way in which we manage the Company. The transformation is well underway and is gaining more ground and momentum.

The Company introduces and leverages the latest development and management principles of network-based organisational structures. These rely on flexible multi-disciplinary teams built on an ad hoc basis and capable of looking for independent solutions on their own and in cooperation with other teams. The new model relies on new interaction principles, and our cultural transformation is here to bring them to the team and the Company. As part of the new model, leaders will increasingly serve as mentors and team facilitators, acting as role models in terms of competence and commitment to the Company’s values.

We value talent more than capital

“We value talent more than capital”

Alexander Dyukov
Chairman of the Management Board and CEO Gazprom Neft

The transformation affects multiple dimensions, including the precision of language used to communicate the Company’s strategy to employees, executive commitment to regular management practices, and top-down cascading of transformational targets and plans to achieve them. Getting employee buy-in to new rules and requirements is the key challenge for managers at all levels. Employee engagement needs to be promoted as an absolute requirement, and non-engagement is a no-go.”

“Transformations that are driven by pure ‘intelligence’ are not sustainable in the long run. The transformation is about developing the right conditions for these new types of teams. Collaboration is the key here.”

The transformation is well underway and is gaining more ground and momentum.
In today’s world, businesses succeed if they are committed to, and engage all their employees in, continuous improvement. In 2018, Gazprom Neft launched a large-scale corporate culture transformation project.

CULTURAL TRANSFORMATION IN QUESTIONS AND ANSWERS

Deputy CEO for Organisational Affairs at Gazprom Neft, Kirill Kravchenko, answers questions about cultural transformation.

WHAT IS THE PURPOSE OF CULTURAL TRANSFORMATION?

Gazprom Neft seeks to become a global leader in HSE, efficiency, and technology of technology. We want to be the frontrunners both in Russia and globally and look to become a role model for others. These goals are only attainable with a shift in our corporate culture.

The transformation will help shape the right type of corporate behaviour to propel the Company towards its goals while also ensuring that this behaviour rests upon the right processes, organisational structure and operational configuration.

WHAT IS THE CENTREPIECE OF THE CULTURAL TRANSFORMATION?

The corporate culture and its components play a crucial role in making employees understand their individual targets and the Company’s wider goals along with acceptable and unacceptable ways to pursue them. This level of awareness is something we need to achieve in the course of the cultural transformation.

HOW WOULD THE LEADERSHIP TEAM NEED TO ADJUST THEIR BEHAVIOUR?

“In today’s volatile world, executives need to see a much broader picture than just a few years ago. This includes the ability to assess the pace of technological progress, performance levels in their respective business units and the maturity of corporate relationships, while also seeing the Company’s goals and understanding their role and the role of the team in achieving them. Against this backdrop, management needs to rely on corporate values, primarily collaboration.”

Alexander Dyukov
Chairman of the Management Board and CEO Gazprom Neft

Under Gazprom Neft’s leadership model, leaders:

> are a role model for all employees in terms of commitment to corporate values;
> build an engaging environment for their teams;
> focus on continuous professional development.

A true leader is someone who is willing to gain the most advanced and up-to-date knowledge and is open to self-development and change, being able to shift from hierarchical management to facilitative leadership.

HOW DO YOU BUILD THE NEW CORPORATE CULTURE?

We rely on best global practices, adjusting them to suit our own needs and requirements. Every employee goes through the full cycle of adopting new patterns of behaviour, from acceptance and eagerness to embrace and follow them, to training and practical application. The key success drivers are:

> revealing the purpose behind the cultural transformation and the Company’s target vision;
> shaping new employee behaviour models;
> adjusting processes that formalise new behaviour patterns;
> maintaining ongoing communication.

We launched corporate culture workshops for managers, gradually enrolling executives of all levels. We encouraged employees to share practical cases that highlight the relevance of corporate values in real life. We launched a project to train our front line ambassadors for change, including HR partners in the Company’s business units and HR heads across our subsidiaries. In 2019, we are launching the search for second-line ambassadors. All employees are eligible to join in provided that they complete a special training programme to become ambassadors.

One key to successful leadership is continuous personal self-improvement. To lead the change, one needs to embrace personal change, always strive for more and never settle.

Evolution of Gazprom Neft’s corporate values

<table>
<thead>
<tr>
<th>FROM 2011 TO AUGUST 2018</th>
<th>AFTER AUGUST 2018</th>
</tr>
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<tr>
<td>Mutual respect and trust</td>
<td>Innovative thinking</td>
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<tr>
<td>Leadership</td>
<td>Collaborating style</td>
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<tr>
<td>Winning mentality</td>
<td>Dedication as a personal trait</td>
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<tr>
<td>Business owner mentality</td>
<td>Efficiency as the basis to achieve our goals</td>
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<tr>
<td>Integrity</td>
<td>Responsibility as our approach to business</td>
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<tr>
<td>Safety and environmental protection</td>
<td>Safety as our priority</td>
</tr>
</tbody>
</table>
**DIGITAL TRANSFORMATION**

**Leveraging digital tools to unlock efficiency and safety improvement potential**

Digital transformation requires a data-driven culture of business management. Across all segments of our operations, we are building next-generation systems of process management based on digital field and asset models and cognitive systems for efficient decision making.

**500+**
digital initiatives and projects in the Company’s portfolio

**60+**
R&D projects implemented in 2018

“Digital transformation brings additional competitive advantages and strengthens our technological leadership in the industry as we shift towards managing all our business processes using digital models and data-driven insights.”

Alexander Dyukov
Chairman of the Management Board and CEO Gazprom Neft

**WHAT MAKES THE DIGITAL TRANSFORMATION NECESSARY?**

Gazprom Neft has reached a robust level of digital maturity. Its business units pursue a variety of digital initiatives that need to be synchronised to capture the value of synergies. It is our common understanding within the Company that a well-thought and systemic approach to leveraging digital technology will help unlock the Company’s long-term strategic benefits.

**WHO IS IN CHARGE OF MANAGING THE TRANSFORMATION?**

It is a Company-wide process that involves all operating and functional units. The Digital Transformation Directorate manages the Digital Transformation Programme and acts as a strategic partner for all business units in the implementation process. We have been making consistent progress in implementing the digital strategy in 2018, with the number of digital projects growing ten-fold, from 50 to 500.

**WHAT ARE THE GOALS OF DIGITAL TRANSFORMATION?**

- digital models of all physical devices and processes in place;
- quick adjustments and end-to-end optimisation along the production chain;
- full asset potential unfolded;
- unmanned autonomous assets added to the portfolio;
- zero safety violations or accidents;
- focus on a partnership ecosystem and B2B and B2C platforms development.

**WHAT IS THE VALUE OF DIGITAL TRANSFORMATION IN TERMS OF SAFETY?**

It helps enhance safety in many ways, such as developing digital models for our fields and facilities. Too often we cannot afford experimenting with real objects due to multiple difficulties and high costs. Digital models enable virtual experiments, with only proven results introduced into real production processes. This gives us a whole new level of both efficiency and safety for people and the environment.

**WHAT ARE THE KEY RESULTS ACHIEVED IN 2018?**

- We established the Digital Transformation Directorate and digital transformation centres in all our production divisions. We also launched a project to develop Gazprom Neft’s Digital Transformation Strategy and approved the Vision of a Digital Oil Company. The Digital Vision Strategy and digital roadmaps were also developed. Digital competence centres were set up, including those with a focus on big data and cognitive technologies. New product and service development was enhanced.
- As part of the digital agenda, we implemented over 60 promising R&D projects in machine learning and artificial intelligence, industrial Internet of things, virtual and augmented reality, wearable devices, robotics and more. We commenced the development of the Company’s single digital platform and a corporate platform for analytics and data management. A big data and artificial intelligence competence centre was launched. Over ten display stands were installed in Gazprom Neft’s House of Innovations that showcase the practical use of digital technologies to address the Company’s real challenges.
- Gazprom Neft was the first-ever Russian company included in The 2019 CIO Agenda: Securing a New Foundation for a Digital Business published by Gartner (case study “Gazprom Neft Adopts Digital Business Strategies to Drive New Efficiencies”).

**WHAT ARE YOUR TARGETS FOR 2019 AND 2020?**

First of all, we are going to launch the entire digital transformation process using a single management model and also kick off the first wave of digital transformation programmes in our production divisions and the Corporate Centre. Secondly, we will focus on implementing priority digital projects that have already proved to have a clear business value. They will be used to improve digital transformation management. We will also launch a digital platform followed by expansion of the digital transformation model to cover all of the Company’s digital initiatives.

Another priority is switching from purchasing ready-made third-party products to developing in-house solutions by the Company individually or in cooperation with tech and industry partners. Our successful track record shows that hi-tech industrial companies like Gazprom Neft have now evolved from technology consumers into technology developers.

**WHAT ARE THE KEY DRIVERS OF FULLY-FLEDDGED DIGITAL TRANSFORMATION?**

The key drivers are a new corporate culture, flexibility and cross-functional collaboration. Having a strong developer and a great geologist is no longer enough in today’s day and age, as we need to bring these two experts together by creating the best possible setting for their joint work and ambitious forays into important topics.

For more details, see the Digital Project subsection on p.121
Gazprom Neft builds new business models based on digital solutions

What will be an oil company of tomorrow?

Digital transformation in the oil industry (a story by the Russia 24 TV channel)

Building the world’s first digital platform to manage an oil company

Gazprom Neft’s digital strategy

**SINGLE DIGITAL MANAGEMENT SYSTEM**
A single framework embracing all systems and processes will help roll out the best solutions across the Company as well as seamlessly integrate new systems. It will also enable end-to-end optimisation across the entire value chain.

**DATA-DRIVEN DECISION MAKING**
Building a single data management system to enable prompt access to all data and ensure higher speed and quality of decision making.

**PRODUCT-CENTRED APPROACH**
The Company’s key goal is to create value for the client. To achieve this and to maximise efficiency, we rely on the IT industry’s working formats such as cross-functionality and multidisciplinary teams. Team work will drive the development of new products both for internal and external customers.

**DIGITAL TRANSFORMATION IMPACT**

-40% faster delivery of large-scale projects

-20% lower production and logistics losses

-50% shorter time to start oil production

+30% higher exploration efficiency

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**Glossary**

**B2B** B2B (business-to-business) is the exchange of products and services between businesses, rather than between businesses and consumers.

**B2C** B2C (business-to-consumer) is the process of selling products and services directly to consumers who are the end-users of these products and services.

**OPERATIONAL TRANSFORMATION**

**Lean production**
An approach to management that focuses on continuous improvement and aims to eliminate all sorts of losses. It engages all employees in driving a flow of improvements.

**Regular management practices**
Executive tools designed to improve efficiency and safety of production facilities. They rely on clearly defined algorithms and implementation principles and apply at all levels of company management. Regular management practices help embed the Company’s values and develop a cultural environment conducive to achieving its strategic goals.

**Etalon**
An operations management system based on an exemplary business model. The endeavours to deliver exemplary performance are typical of a mature company that has successfully navigated through developmental challenges.

**DIGITAL TRANSFORMATION**

**Augmented reality**
A technology that superimposes computer-generated data (images, video, text, graphical) on the content displayed by an electronic device, be it a smart phone or AR glasses. In production, it is leveraged to promptly receive information about equipment and its condition, simulate work processes, report failures, conduct employee training, and more. It also significantly reduces the number of errors and increases work efficiency.

**Predictive incident management**
A fundamentally new approach to equipment maintenance and repair based on the analysis of digital data gathered from sensors to accurately predict wear and tear. It helps maximise maintenance efficiency and prevent accidents.

**Industrial Internet of things** IoT refers to interconnected sensors attached to physical assets and networked together with computers to enable efficient data collection and exchange. It is used for remote control of equipment and industrial automation, cutting down human intervention.

**CULTURAL TRANSFORMATION**

**Corporate culture**
A system of shared values, attitudes, goals and principles of teamwork and workplace dispute settlement, common to all Company employees and based on corporate values.

**Corporate culture workshops**
Employee workshops with participation of the Group’s executives set up to discuss “as is” and “to be” state of the Company’s corporate culture model and the initiatives required to build a more engaging working environment.

**Management by objectives**
Collective approach to formulating goals, setting the direction, and decision making inside the company. It ensures that the executives and employees share the same goals, understand their importance, and are able to assess their performance and facilitate improvements.

**ORGANISATIONAL TRANSFORMATION**

**Engaging environment**
A set of principles and processes that help employees reach their full potential, work relentlessly to develop and improve their performance, actively collaborate to address issues, and feel a sense of personal responsibility for their share of work and outcomes.

**Hierarchical management**
A classical organisational model integrating top-down management guidance with down-top flow of information from personnel on the ground. It is based of stringent supervision, clear delineation of responsibilities, cumbersome processes and vertical hierarchy and is viewed as hardly effective in today’s world.

**Network-based management**
A modern management model based on flexible cross-functional teams capable of setting their own goals and making independent decisions. It relies on horizontal hierarchy, lifelong learning and personal responsibility for the outcomes. It is best for addressing complex challenges in a rapidly changing environment.
The structure of the Company’s remaining commercial reserves has changed to worse as most deposits entered the maturity phase. Commercial production at mature fields is maintained with advanced drilling and tertiary (enhanced) recovery techniques. Gazprom Neft also expands its resource base through exploration and acquisition of new assets.

Reserves of the Company are audited in accordance with PRMS standards. Reserves of the Company are audited in accordance with SEC standards.

We are a different company today, whether measured by reserves and production or by 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 also should change.”

Vadim Yakovlev
First Deputy CEO Gazprom Neft
Expansion of the Group’s resources base in 2018 was supported by the improved exploration and production drilling technology and introduction of advanced non-seismic exploration techniques. Key drivers behind an increase in current reserves are successful prospecting surveys at the Alexander Zhviron field and fields operated by Messyayakhanteftegaz, Salym Petroleum Development and Arctigaz, stop-by-stop development of the Tazevskoye, Orenburgskoye and Novoportovskoye fields, and an increase of Gazprom Neft’s share in Arctigaz to 50%.

In 2018, a new field named Triton and containing an estimated 137 mtoe in reserves was discovered offshore the Sea of Okhotsk. 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, in the region.

In 2018, Gazprom Neft acquired a 100% stake in Enerkam holding a licence for the Solnechnoye licence block in the Orenburg Region. The asset will be part of the Company’s Orenburg production cluster.

A joint venture was established by Gazprom Neft and Spain’s Repsol to explore Karabashsky 10 located in the Khanty-Mansi Autonomous Area – Yugra. The block adjoins other Karabashsky licence blocks operated by Evrotek-Yugra, another joint venture of Gazprom Neft and Repsol. Exploration activities on the block are planned to begin in 2019.

Exploration and development

Projects forming large clusters are developed by the Company in the Yamal Peninsula, Orenburg Region, Eastern and Western Siberia and as joint ventures with foreign partners.

In 2018, the Management Board of the Company approved a new approach to exploration and decided to establish Gazpromneft-GEO, a competence centre for large-scale exploration projects. Its task is to provide end-to-end project management services and ensure continuous replacement of the Company’s economic reserves to maximise the efficiency of equity financing.

In 2018, the Company obtained over 20 licences by way of licence auctions, exploration applications, and mergers and acquisitions. Out of this number, 16 licences were obtained by Gazprom Neft (including its subsidiaries and JV) and 4 licences were obtained by Gazprom Neft and Repsol. Exploration activities on the block are planned to begin in 2019.

Licences obtained and acquired in 2018

<table>
<thead>
<tr>
<th>Licence block</th>
<th>Region</th>
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<tbody>
<tr>
<td>Osyny</td>
<td>Yamal-Nenets Autonomous Area</td>
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<tr>
<td>Karabashsky 17</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
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<tr>
<td>Karabashsky 18</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
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<tr>
<td>Karabashsky 19</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
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<td>Karabashsky 25</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
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<tr>
<td>Karabashsky 26</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
</tr>
<tr>
<td>Karabashsky 27</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
</tr>
<tr>
<td>Saitsky</td>
<td>Orenburg Region</td>
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<tr>
<td>Pakhvistsaysky</td>
<td>Orenburg Region</td>
</tr>
<tr>
<td>Novoatsaysky</td>
<td>Orenburg Region</td>
</tr>
<tr>
<td>Solnechensky</td>
<td>Orenburg Region</td>
</tr>
<tr>
<td>Karabashsky 10</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
</tr>
<tr>
<td>Surisky</td>
<td>Yamal-Nenets Autonomous Area</td>
</tr>
<tr>
<td>Yuzhno-Nevoportovskoye</td>
<td>Yamal-Nenets Autonomous Area</td>
</tr>
<tr>
<td>Yuzhno-Yugansky 1</td>
<td>Khanty-Mansi Autonomous Area – Yugra</td>
</tr>
<tr>
<td>Lozovskoye</td>
<td>Krayskoye Autonomous Area</td>
</tr>
</tbody>
</table>

In 2018, Gazprom Neft’s licence blocks (Ayashsky, Zapadno-Zimny, and Novoportovskoye fields, and an increase of Gazprom Neft’s share in Arctigaz to 50%.

A total of 4 new fields and 27 hydrocarbon deposits were discovered on Gazprom Neft’s licence blocks (Ayashsky, Zapadno-Zimny, and Novoportovskoye fields, and an increase of Gazprom Neft’s share in Arctigaz to 50%.

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In 2018, Gazprom Neft expanded its resource base primarily through organic growth at its existing assets. With 43 exploration wells drilled for that purpose, the total depth drilled in 2018 reached 185,600 m, up 82% y-o-y.

The success rate of exploration drilling stood at 85.7%, according to Russian assessment standards.

2D seismic surveys covered 5,436 line km, including 5,123 line km offshore, in 2018. 3D seismic surveys covered 4,573 sq km (down 48% y-o-y), including 1,481 sq km offshore.

Gazprom Neft’s technology strategy focuses on new hydrocarbon exploration and production techniques. One of its priorities is an electronic asset development (EAD) system that covers all key activities and processes, such as exploration, prospecting, drilling, development, production, and site infrastructure, and over 30 individual projects. The EAD system is designed to create new technology for commercial exploration and production.

Gazprom Neft Scientific and Research Centre and Information Technology Service Company (ITSK) build a unique EAD digital framework capable of suggesting optimal well logging techniques. It factors in all data on each well’s purpose, geology and specifications. It is expected to save over 450 m on capital and operating costs in ten years.

Contractor safety

Introduction of the Etalon Operations Management System 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 contractor 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.

“Exploration is the most cost intensive and complex development phase. It usually takes around 18 months on the average to go the full distance from seismic surveys to a geological model. This is when we obtain most of the data and create most of the value. And this is where there are enormous opportunities to be more cost efficient with digital technology. Who will open up these opportunities? Who will change the industry rules of the game? I am sure that changes will begin with exploration teams like ours.”

Alexei Vashkevich
Head of Geological Exploration and Resource Base Development Directorate
Gazprom Neft
Discovery of the year

In November 2018, Gazprom Neft discovered a new field in the Sea of Okhotsk (offshore the Sakhalin Island). It was named Triton after the ancient sea god, Neptune’s son [an earlier discovered field on the Ayashsky licence block was named Neptune].

Gazprom Neft discovers the second field on the Ayashsky licence block.

TRITON FIELD

Ultra light oil with no impurities

Shallow depth

137 mtoe geological hydrocarbon reserves

90 m sea depth
INTEGRATION OF EXPLORATION TECHNIQUES

The Robust Electromagnetic and Seismic Data Integration (ROKES) technique, a new approach to geological modelling, was test-piloted successfully. It was designed to improve prospecting accuracy and cost efficiency based on the integration of seismic and electromagnetic survey data. Integration of exploration techniques optimises the number of exploration wells and has already reduced drilling costs in Western Siberia.

A PRIORI INFORMATION

In 2018, the Company and IBM Research Brasil launched the Cognitive Analytics for Geology project. The project aims to introduce cognitive computing into geological data processing and is expected to create a smart data processing technology that will accelerate decision-making and field development processes.

IMPROVEMENT OF DATA INTERPRETATION

In 2018, the Company and the Skolkovo Institute of Science and Technology developed software algorithms that will automate petrophysical modelling and streamline project-related decisions.

Another project started in 2018 aimed to measure saturation, porosity and permeability of the Achimov Formation (AF). In 2019, a pilot programme will be launched to select an optimal configuration of geographic information systems for AF wells. According to current estimates, the optimal set of instruments will save up to ₽ 2.52 m per well on geophysical well logging.

An object-oriented approach was tested for 3D seismic data correlation. Test results were integrated into available geological data to identify the specifics of reservoir distribution in each formation. This will improve accuracy of development simulation models that will be built later.

COGNITIVE GEOLOGY

DIGITAL PROGRAMME

Implementation of the digital exploration programme will shift the focus on the need for machine learning and digital modelling competencies. The Cognitive Geology programme will improve the following indicators by 2025:

> -30% reduction in exploration time;
> +30% improvement in unit economics of exploration activities;
> +30% more informative data obtained.

VIRTUAL LABORATORY

The Company prototyped Virtual Laboratory, a solution for core and fluid analysis. Its online app is capable of monitoring instrument utilisation, reducing measurement time and streamlining the entire laboratory test cycle. Key data is obtained faster and can be fed into the model.

PROBABILISTIC FORECASTING OF RESERVOIRS

Methodology was developed to use seismic inversion for probabilistic forecasting of reservoirs. The technology saved over ₽500 m by positioning exploration wells more precisely (fewer wells were drilled to obtain sufficient information).
NEW PARTNERS

Having established a joint venture with Mubadala Petroleum and the Russian Direct Investment Fund (RDIF), Gazprom Neft acquired reliable partners who will bring in new expertise and new technology.

**Mubadala Petroleum and RDIF acquire stakes in Gazpromneft-Vostok**

- **62 mt** total recoverable oil and condensate reserves in Gazpromneft-Vostok’s assets
- **400 mt** total initial geological reserves of oil in Western Siberian pre-Jurassic formations
- **28 bcm** recoverable gas reserves in Gazpromneft-Vostok’s assets
- **66 mt** Gazpromneft-Vostok’s geological reserves in pre-Jurassic formations

Gazpromneft-Vostok ownership structure (in %)

Gazprom Neft, Mubadala Petroleum and RDIF announce the closing of the deal.

Gazprom Neft, Mubadala Petroleum and RDIF announce a partnership to join their efforts in the development of Western Siberian deposits. (Video interview)
In 2018, the Company strengthened its leadership as Russia’s Top 3 hydrocarbon producer. Its total output (including shares in joint ventures) increased 3.5% y-o-y to 92.88 mtoe. The average daily production across the Group amounted to 254.45 ktoe (up 3.5%).

Major contributors to the growth of production were Gazprom Neft’s large fields in development (Prirazlomnoye, Novoportovskoye and Vostochno-Messoyakhskoye). Other growth drivers were an increase in the equity share in Arcticgas (from 46.67% to 50%) and the beginning of production at the Tazovskoye field.

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.

New high-flow wells were put into operation at the Messoyakha group of fields in 2018. Development of deep horizons at the Vostochno-Messoyakhskoye field and preparation of the Zapadny block, where an oil and gas deposit was discovered in 2018, are scheduled for 2019. With 85 mt of geological reserves, the Zapadny block deposit is comparable to a separate field by its size. Production at the Zapadny block will start in 2021.

The Company made significant progress in innovative oil recovery enhancement techniques. A two-year pilot project for alkaline-surfactant-polymer (ASP) flooding at the Zapadno-Salymskoye field was finished in 2018. The technology increased the oil recovery factor to 69%, which is two times higher than the Russian industry average. The ASP flooding technique can revive production at mature conventional fields and extend their life for many years. The initial increase in the output might reach 200 mt of oil.
Gazprom Neft invests much effort in commercialising associated petroleum gas (APG) and natural gas produced at oil fields, and increasing its value. In 2018, Group-wide gas production increased 9.4% to 37.22 bcm. The growth is primarily associated with high utilisation of gas processing equipment (96%), high APG utilisation (up to 97–99%) at the fields with developed gas infrastructure, expansion of the gas injection infrastructure at the Novoportovskoye field, and gas compression capacity expansion at the Eastern block of the Orenburgskoye oil and gas condensate field.

In 2018, the Company decided to invest in the gas processing capacity expansion to increase utilisation of gas from the Novoportovskoye field and adjacent licence blocks. A pipeline will be built later to run from the Yamal Peninsula to the Gydan Peninsula and Yamburgskoye field where it will be connected to the Unified Gas Supply System. The pipeline is planned to be commissioned in 2022. Given rich gas resources of the Yamal Peninsula, the new pipeline will be an important component of the Company’s strategic infrastructure in the region.

More cost-efficient well drilling and completion is another priority for Gazprom Neft. In 2018, the Company drilled long horizontal wells (up to more than 2 km long) and multilateral wells with cased boreholes, used hydraulic fracturing (high volume, acid and proppant fracturing techniques), and rolled out underbalanced drilling, a technique that had proved efficient.

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Glossary:
- **Underbalanced drilling** — Drilling technique where the reservoir pressure is higher than the pressure in the wellbore. The pressure difference minimizes formation damage and increases the rate of penetration and oil recovery factor.
- **Cased borehole** — Borehole section with casing pipes installed. Casing pipes are screwed on to each other or welded together to form a casing column.
- **Proppant / propping agent** — Granular material designed to keep an induced hydraulic fracture open under ground pressure and thus enhance oil recovery.
- **Alkaline-surfactant-polymer (ASP) flooding** — Chemical technique for oil recovery enhancement at mature fields where a mixture of alkali, surfactant and polymers is injected into the reservoir.

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Oil production at Novoportovskoye field [special coverage by Russia 24 TV Channel]

Prirazlomnaya: a man-made island [special coverage by Russia 24 TV Channel]

Moving forward

Top oil fields by production growth in 2018

<table>
<thead>
<tr>
<th>Field</th>
<th>2018 Production (mil. mt)</th>
<th>Growth %</th>
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</thead>
<tbody>
<tr>
<td>Novoportovskoye</td>
<td>7.1</td>
<td>+20%</td>
</tr>
<tr>
<td>Prirazlomnaya</td>
<td>3.2</td>
<td>+21%</td>
</tr>
<tr>
<td>Messoyakhaneftegaz assets²</td>
<td>2.2</td>
<td>+41%</td>
</tr>
</tbody>
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Gazprom Neft’s gas projects: a source of value
Offshore development is one of the most difficult segments of the oil and gas industry, whether in terms of production technology or environmental safety. With advanced offshore development technology in use, Gazprom Neft is building its reputation as a leader in Arctic development.

Recently, the Company has made a decision to reorganise its Offshore Development Division by mid-2019. Gazprom Neft Shelf will be transformed into a holding company that will be a decision-making and strategic hub for the Company’s offshore projects. The reorganised holding structure will include a centre for offshore competencies and companies specialising in offshore operation or exploration.

A project management office (PMO) was launched by the Upstream Division in 2018. Its primary task is to create a continuous digital and organisational environment for large projects.

Gazprom Neft’s PMO has a three-level structure and comprises multi-functional centres in Saint Petersburg, Tyumen and on site. This arrangement enables experts from different regions to examine project documents in a digital format, improves efficiency and facilitates decision making.

One of the key PMO tools is the Cascade Project Data Management system that is capable of building a digital model of facilities under construction and managing the end-to-end construction process.

The Production Control Centre operated by Gazpromneft-Khantos is the first in Russia to develop and introduce an integrated digital model of oil reservoirs. It is here where the Priobskoye field is digitalised. Data from wells and pumps flows to a digital platform that processes it, makes forecasts and recommends optimal production modes for each well.

The Production Control Centre has no rival in the industry and is a model of how oil production facilities will be managed in the future. This practice will be rolled out to other production assets of the Company.

Gazprom Neft improves production management efficiency with information technology.
Novy Port

Yamal Peninsula

1. Two escorting icebreakers – Alexander Sannikov and Andrey Vilkitsky – joined the Arctic fleet.
2. Key design solutions were approved to develop the northern section of the Novoportovskoye oil and gas condensate field; pilot production phase completed.
3. Key specifications were approved for a gas pipeline to cross the Gulf of Ob; design phase started.

Design documents were developed to expand production infrastructure into the northern section of the field; final investment decision made.
2. Phase 2 of the oil collection and treatment infrastructure completed.
3. The final investment decision was made to build a gas pipeline; construction started onshore and offshore the Gulf of Ob.

Messoyakh (VMLB)

Tazovsky district, Yamal-Nenets Autonomous District

2. 13 wells, including 2 high-tech wells, drilled.
3. Engineering surveys for on-site facilities and pipelines completed.

Kuyumba

Krasnoyarsk Territory

1. Commercial production started at the Kuyumbinskoye field.
2. Central gathering facility commissioned and operating.
3. Project re-framed, with priority drilling areas identified.
4. Flooding management technique introduced.

Kuyumba

Krasnoyarsk Territory

1. Expansion of the central gathering facility to be capable of processing 2.9 mtpa of oil.
2. Government review of the project design documents for the pipeline to connect the modular unit for initial water separation of the Tersko-Kamovsky licence block to the central gathering facility of the Kuyumbinsky licence block.
3. Commissioning of the oil and gas pipeline connecting the Podkamennaya Tunguska oil and gas collecting pipe and the central gathering facility commissioned.
4. Business case for the Tersko-Kamovsky licence block to be confirmed.

2. Construction of APG utilisation infrastructure started by way of gas re-injection.
3. Geological surveys completed for a section of the Zapadno-Messoyakhsky licence block to be used as a temporary underground gas storage; possibility of gas injection confirmed.
4. Multi-frac efficiency confirmed for PK 1-3 unconsolidated reservoir.

Tazovsky

Tazovsky district, Yamal-Nenets Autonomous District

1. Construction of gas re-injection infrastructure; delivery of equipment (GPA-2 gas compressor unit, a low temperature separation unit, and a turbo-expander) for the GAS project.
2. Construction of gas re-injection infrastructure; delivery of equipment (GPA-2 gas compressor unit, a low temperature separation unit, and a turbo-expander) for the GAS project.
3. Construction of infrastructural facilities.

Gazprom Neft’s share | To be commissioned | Design capacity to be reached

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<tbody>
<tr>
<td>Novy Port</td>
<td>240.13 (146.66 + 93.47)</td>
<td>65.11 (15.01 + 50.10)</td>
<td>252.14 (22.90 + 229.24)</td>
<td>49.02 (37.75 + 11.27)</td>
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<td>2018 milestones</td>
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<td>1.</td>
<td>Two escorting icebreakers – Alexander Sannikov and Andrey Vilkitsky – joined the Arctic fleet.</td>
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<tr>
<td>2.</td>
<td>Key design solutions were approved to develop the northern section of the Novoportovskoye oil and gas condensate field; pilot production phase completed.</td>
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<td>3.</td>
<td>Key specifications were approved for a gas pipeline to cross the Gulf of Ob; design phase started.</td>
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<td>Plans for 2019</td>
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<tr>
<td>1.</td>
<td>Design documents were developed to expand production infrastructure into the northern section of the field; final investment decision made.</td>
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<td>2.</td>
<td>Construction of the oil collection and treatment infrastructure completed.</td>
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<td>3.</td>
<td>The final investment decision was made to build a gas pipeline; construction started onshore and offshore the Gulf of Ob.</td>
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</table>
### Otdalennaya group of fields

Yamal-Nenets Autonomous Area

1. Laboratory and in-office geochemical surveys completed for phase 1 of the Vorgensky licence block project.
2. 3D seismic cube processed and interpreted.
3. Long-term exploration programme developed.
4. Well 711PO completed and tested at the Zapadno-Chatylkinsky licence block.

### Prirazlomnoye

Offshore the Pechora Sea

1. Completion and testing of Well 42 at the Yuzhno-Udmurtskoye field.
2. Completion of field surveys and geochemical data interpretation for phase 2 of the northern section of the Vorgensky licence block.
3. Completion and testing of three exploration and appraisal wells (780PO, 743PO, 746PO).
4. Presentation to the steering committee; phase 3.3 moving from Exploration to Appraisal; decision on the further development of phase 3.3.
5. Suggestions for the exploration programme based on the basin modelling results.

### Badra

Iraq

1. 3 new wells commissioned.
2. Commissioning of a produced water treatment plant.
3. 3rd loading rack and water treatment system commissioned.

### Garman

Iraq

1. Sarkala-2 well commissioned, oil treatment capacity expanded to 35 kbpd.
2. Sarkala-3 drilling started.
3. Sarkala-1 workover.

### Hydrocarbon Production in 2018

<table>
<thead>
<tr>
<th>Field</th>
<th>2018 (mtoe)</th>
<th>2019 (mtoe)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Otdalennaya</td>
<td>24.53</td>
<td>55.35</td>
</tr>
<tr>
<td>Prirazlomnoye</td>
<td>13.20</td>
<td>1.70</td>
</tr>
<tr>
<td>Badra</td>
<td>0.25</td>
<td>0.16</td>
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</tbody>
</table>

### Gazprom Neft’s Share | To be commissioned | Design capacity to be reached

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<tr>
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</thead>
<tbody>
<tr>
<td>Otdalennaya</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td>30%</td>
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<tr>
<td>Prirazlomnoye</td>
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<tr>
<td>Badra</td>
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</tbody>
</table>

### 2P Hydrocarbon Reserves (PRMS classification) [mtoe] (Including the Company’s share in the project)

<table>
<thead>
<tr>
<th>Field</th>
<th>Design capacity (mtpa)</th>
<th>Hydrocarbon production in 2018 (mtoe)</th>
<th>Gazprom Neft’s share</th>
<th>To be commissioned</th>
<th>Design capacity to be reached</th>
</tr>
</thead>
<tbody>
<tr>
<td>Otdalennaya</td>
<td>24.53 (9.52 + 15.01)</td>
<td>4.80</td>
<td>100%</td>
<td>2019</td>
<td>2021</td>
</tr>
<tr>
<td>Prirazlomnoye</td>
<td>55.35 (31.84 + 23.51)</td>
<td>1.70</td>
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<tr>
<td>Badra</td>
<td>13.20 (5.04 + 8.16)</td>
<td>0.25 (0.00 + 0.25)</td>
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</table>

### Plans for 2019

<table>
<thead>
<tr>
<th>Field</th>
<th>Plan</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Otdalennaya</td>
<td>1.</td>
<td>Completion and testing of Well G2 at the Yushna-Udmurtinskoye field.</td>
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<td></td>
<td>2.</td>
<td>Completion of field surveys and geochemical data interpretation for phase 2 of the northern section of the Vorgensky licence block.</td>
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<td></td>
<td>3.</td>
<td>Completion and testing of three exploration and appraisal wells (780PO, 743PO, 746PO).</td>
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<td>4.</td>
<td>Presentation to the steering committee; phase 3.3 moving from Exploration to Appraisal; decision on the further development of phase 3.3.</td>
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<td></td>
<td>5.</td>
<td>Suggestions for the exploration programme based on the basin modeling results.</td>
</tr>
<tr>
<td>Prirazlomnoye</td>
<td>1.</td>
<td>Commissioning of new wells.</td>
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<td></td>
<td>2.</td>
<td>Commissioning of a heliport and an ODTR site.</td>
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<td>3.</td>
<td>Project design for phase 2 retrofitting of the Prirazlomnoye offshore ice-resistant stationary platforms.</td>
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<td></td>
<td>2.</td>
<td>Completion of contracts for the construction of a gas treatment facility.</td>
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<td></td>
<td>2.</td>
<td>3rd loading rack and water treatment system commissioned.</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Sarkala-1 workover.</td>
</tr>
</tbody>
</table>
The Company continues upgrading and expanding capacity of its refineries, including Slavneft-YANOS and Mozyr Refinery in Belarus and NIS Pančevo Refinery in Serbia:

- Omsk Refinery – the process condensate treatment unit and the automatic on-spot loading unit (AOLU-2) constructed; phase 1 of the delayed coker unit (DCU) upgrade completed;
- Moscow Refinery – major construction and installation operations at Euro+ refining unit completed, outdated refining units overhauled;
- NIS Pančevo Refinery – construction of a new deep conversion facility based on delayed coking technology continuing;
- Slavneft-YANOS – a number of technology upgrade and efficiency improvement projects underway;
- Mozyr Refinery – construction of a heavy residue hydrocracking unit continuing.

Products of the Company meet the growing demand on the Russian market:

- Some of Gazprom Neft’s petroleum products, including gasolines, diesel fuel and jet fuel, won awards of the nationwide contest Russia’s 100 Best Products.

Following the completion of upgrades and capital repairs at Russian refineries of the Group in 2017, the volume of oil refined in 2018 increased 7.0%. The growth was observed at all refineries of the Group in Russia and at Pančevo Refinery in Serbia.

In 2018, the Group continued implementing the second phase of its environmental compliance and technology upgrade programme. It pursues strategic goals in oil refining and aims at increasing oil refining depth to 99% by 2025.

The year 2018 saw a sizeable growth in the light product yield (gasolines, diesel fuel and jet fuel) on the back of technology optimisation and an increase in the volume of oil refined. The output of gasolines and diesel fuel increased 3.0% and 7.4% respectively. The output of jet fuel grew 14.1% y-o-y.

Production of naphtha was increased year over year to meet the existing conditions on the gasoline market and improve the refining efficiency.

A 14% increase in bitumen production was associated with growing domestic demand and export growth.
The purpose of the Efficiency Control Centre (ECC or the Centre) is performance management across the value chain (from crude oil logistics to customer sales) through a single digital platform. The platform uses predictive analytics tools, neural networks, artificial intelligence and digital twin technology.

Taking a new approach to logistics, the Centre manages the supply chain as a single asset broken down into flow-through business processes. This approach is supported by overall digitalisation of the production assets, with over 250,000 sensors and instruments installed. ECC processes sensor data on a continuous basis and monitors 99% of all process parameters and material flows in logistics, refining and sales. All data is accumulated in the data lake for subsequent analysis.

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1. One of them is the first Russian digital system that enables end-to-end flow-through 60-day planning. The planning system factors in actual production and sales figures and optimises refining volumes, feedstock supply and the output product range, thus efficiently redistributing available resources. The system improved the accuracy of planning to 95% and reduced the production planning time 16-fold. After the system is rolled out to cover 100% of the Company’s downstream assets, the accuracy of planning will reach 97%, which is in line with the best global standards.

2. The second one – Smotr (Inspection) process monitoring system – monitors production process variations and covers 12,200 process parameters and 5,800 quality metrics. In addition, the system automatically selects corrective measures and enables efficient interaction between the departments involved. The Smotr system controls 100% of production facilities at the Omsk and Moscow refineries.

3. The third system, Neftekontrol (Oil Control) – Gazprom Neft, was developed by the Company to monitor the quantity and quality of petroleum products along the plant-to-consumer supply chain. Extensive data automation almost doubled the accuracy of record-keeping and halved quality and quantity losses. This system allows the Company to solve a wide range of tasks, from enhancing the overall supply chain efficiency and transparency to taking anti-counterfeiting and anti-fraud measures. Currently, all the Company’s filling stations are connected to the system that monitors their operation and responds promptly to any issues which arise.

ECC features three unparalleled digital systems aimed at improving business performance.

- **95%** production planning accuracy
- **5+ ₽ bn** cost savings from the planning system in 2018
- **2–3 minutes** to change production schedule
- **5.8 thousand** quality metrics monitored by Smotr system
- **12.2 thousand** process parameters monitored by Smotr system

**ECC highlights**

**Efficiency Control Centre: first-year results**

"We are building an efficient planning system."

**Strategy of digital transformation in the Downstream Division**

**Optimal workplace environment**

In 2018, the Omsk Refinery adopted the Operations Management System (OMS) Code of Conduct. In particular, the refinery piloted standard operating procedures (SOPs), an essential element of the safety system, and installed visual management stands. Employees use the 5S methodology, a lean manufacturing tool that deals with workplace organisation. Working together, employees designed an optimal layout of tools, materials and documents properly arranged and visualised with tags, outlines and diagrams. Compliance with the 5S methodology is assessed through monthly self-appraisals and quarterly internal audits.
Refining at the Company’s facilities

Omsk Refinery

2018 MILESTONES:
> Construction of a process condensate treatment unit completed; it will reduce environmental footprint of the refinery and new facilities yet to be commissioned
> Construction of an automatic on-spot loading unit (AOLU-2) completed; it will facilitate the rail tank filling process and reduces environmental impact
> Phase 1 of the delayed coker unit upgrade completed
> Overhaul completed at crude oil treatment, primary refining, hydrotreatment, isomerisation (Isomalk-2), petroleum coke calcination, sulphur production, and aromatics production units
> Permit obtained to use jet fuel
> New products – aromatic hydrocarbon fraction and cat-cracked gasoline – launched

PLANS FOR 2019:
> Construction of a crude oil distillation unit, deep conversion facility, delayed coker unit, diesel fuel hydrotreater/ dewaxer and Biosfera water treatment facility
> Retrofit of a catalytic reforming unit and commissioning of a regeneration gas treatment unit for the catalytic cracker

Moscow Refinery

2018 MILESTONES:
> Construction of Euro+ oil refining unit completed
> Construction of a power distribution substation completed; it will supply power to the product loading facilities
> Outdated refining units (crude oil distillation, catalytic reforming, hydrotreatment, viscosity breaking, and gasoline re-distillation units) overhauled
> Production of G-Drive 100 gasoline launched
> Several refinery products, including AI-92-K5 and AI-95-K5 unleaded gasolines, Euro-5 DT-L-K5 grade C summer diesel fuel, DT-E-K5 grades E and F inter-season diesel fuels, eco-friendly (urban) DT-Z-K5 types 2 and 1 diesel fuels, base road bitumens, grades 90/130 and BND 60/90 in accordance with GOST 22245-90 and grades BND 50/70, BND 70/100, BND 100/130 in accordance with GOST 33133-2014 etc., won awards at the nationwide contest Russia’s 100 Best Products

PLANS FOR 2019:
> Commissioning of the unparalleled Euro+ oil refining unit
> Commissioning of the light product loading rack for motor vehicles
> Construction of the automated on-spot loading rack for rail tanks
> Site preparation for the construction of a deep conversion facility and a kerosene hydrotreater

“Consistent operating efficiency improvements at Gazprom Neft’s refineries are achieved as part of our refinery upgrade exercise. Its second stage will secure a greater refining depth and higher output of light products at the Omsk and Moscow refineries, while also reducing their environmental impact.”

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

“A Gazprom Neft invested over ₽160 bn to upgrade the Moscow Refinery. We converted the refinery to manufacture Euro-5 fuels, constructed the Biosfera innovative bio-treatment facilities, and introduced the industry’s first automatic environmental monitoring system. Our upgrade programme has not been finished yet as we are going to decommission the outdated processing facilities and prepare the site for the construction of a deep conversion facility.”

Alexander Dyukov
Chairman of the Management Board and CEO
Gazprom Neft
**Pančevo Refinery** (NIS, Serbia)  
*In 2018:*  
4.6 mt installed capacity  
3.55 mt oil refined  
88.0% refining depth  
76.38% light product yield  
*Pančevo refinery: producer of the future*

**2018 MILESTONES:**  
- Pančevo refinery celebrated its 50th anniversary  
- Construction of a deep conversion facility based on delayed coking technology continued  
- Trial batch of Iranian Heavy crude refined  

**PLANS FOR 2019:**  
- Completion of the delayed coking unit; after it is commissioned, Pančevo refinery will join the best industry players in terms of oil refining depth  

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**Slavneft-YANOS**  
*In 2018:*  
15.0 mt installed capacity  
7.86 mt oil refined  
66.58% refining depth  
55.25% light product yield  
*Share of Gazprom Neft.*

**2018 MILESTONES:**  
- Construction of Wet Catalysis-2 hydrogen sulphide removal unit continued; hydrogen production units converted to natural gas; vacuum column at VT-6 unit upgraded  
- Deep conversion facility configuration and vendor selected  
- Commercial production of EN 100/150, EN 70/100, EN 50/70 bitumen grades and petroleum asphalt launched  
- Several refinery products, including Euro-5 DT-L-K5 grade С summer diesel and BND 70/100 petroleum bitumen, won awards at the nationwide contest Russia’s 100 Best Products  

**PLANS FOR 2019:**  
- Completion of Wet Catalysis-2 hydrogen sulphide removal unit  
- Construction of an aromatics loading rack  
- Replacement of feedstock for the hydrogen production unit and conversion of process furnaces to natural gas  
- Upgrade at VT-6 vacuum column to continue  
- Deep conversion project to continue  

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**Mozyr Refinery**  
*In 2018:*  
14.03 mt installed capacity in 2018  
0.0 mt oil refined  
78.8% refining depth  
63.4% light product yield  

**2018 MILESTONES:**  
- Construction of a heavy residue hydrotreatment unit continued  
- Product range expanded with methyl tert-butyl ether (MTBE) and alkylate  

**PLANS FOR 2019:**  
- Construction of the heavy residue hydrotreatment unit to continue  

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**Refining at joint-venture facilities**  
In addition to its in-house refining facilities, Gazprom Neft has access to capacity of Slavneft-YANOS Refinery and Mozyr Refinery located in the Republic of Belarus.
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.

**High-tech icebreakers**

Select the image to view the video.
SALES OF OIL, GAS 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.

2018 MILESTONES

- The Going Our Way programme targeting customers of Gazprom Neft’s filling stations remains the largest loyalty scheme on the Russian fuel market by the number of members As at the end of 2018, the programme had 11.1 million members in Russia and the CIS.
- Sales of G-Drive 100, a new gasoline which replaced G-Drive 98 at the Company’s filling stations, demonstrated strong growth.
- OPTI, a partner filling station network, launched in Russia.
- The number of airports supplied with Gazprom Neft fuel reached 260.
- Construction of the first LNG bunkering barge started in Russia.
- High-tech logistics terminal acquired in Salak (Rostov Region).
- Range of lubricants expanded with new G-Energy Synthetic products, transformer oils, white oils and hydraulic fluids.

In 2018, Gazprom Neft’s fleet received enough vessels to ensure uninterrupted service of the Company’s fields in the Arctic region. Two cutting-edge icebreakers Alexander Sannikov and Andrey Vilkitsky entered service in the reporting year.

In addition to that, Gazprom Neft’s vessels operating in the Arctic include six Arc7 tankers of the Sturman (Navigator) series (with a capacity of 42,000 t each) and one Arc5 tanker with a capacity of 19,800 t.

With the fully-fledged 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. In 2018, Novy Port crude was shipped to nine countries, including the UK, France, Norway and Netherlands.

Crude 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 Group.

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.

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Comprehensive logistics is an essential element of the Company’s projects in the Arctic region as it ensures continuous year-round transportation of crude oil from the Arctic fields.

In 2018, Gazprom Neft’s 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 state-of-the-art vessels in their class. They are highly manoeuvrable 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 2-meter thick ice.

The icebreakers are equipped with state-of-the-art automatic power supply and navigation systems. Their electronic equipment can be controlled remotely. Like other Gazprom Neft’s facilities, 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.

On-board equipment includes:
- 2 motor boats for spill response activities;
- A helipad for heavy helicopters of Mi-8 class;
- Fire-fighting systems with a capacity of 2,500 cubic meters per hour;
- 2 lifeboats, 1 auxiliary motor boat, and 6 rescue rafts.

Tasks of Gazprom Neft’s icebreaker fleet include:
- Escorting tankers in ice-covered seas;
- Safety measures during tanker mooring and loading;
- Protection of the Arctic Gates terminal from ice field movement;
- Transportation of personnel and small cargoes to the terminal;
- Automated remote control of the terminal.

The icebreakers are equipped for rescue and emergency response missions and are capable of:
- Fighting fires at vessels and onshore facilities accessible from sea;
- Managing oil spill response activities;
- Rescuing vessels in distress;
- Searching and rescuing people.

“We expect a one-third increase in market demand for transportation services along the Northern Sea Route by 2030. Our own fleet will allow the Company to maintain leadership in the Russian Arctic in the long term”.

Alexander Dyukov
Chairman of the Management Board and CEO
Gazprom Neft

To manage its Arctic fleet, the Company has developed Kapitan (Captain), an interactive oil transportation planning system. The system is intended to maximise efficiency of oil transportation from the fields to end customers by fully synchronising the entire logistics chain of production and tanker availability, minimising downtime and improving the fleet utilisation.

The Kapitan system has fleet planning and scheduling capabilities and provides analytics based on accumulated statistical data. It analyses available cargo capacity and generates monthly oil shipment schedules for a period of up to three years. The shipment scheduling and approval time was reduced from three business days to two hours.

The Kapitan system boosts revenues by increasing the number of trips while reducing their duration, cuts costs through efficient utilisation of the fleet and tank farms, and manages operational and environmental risks.

In the future, the Kapitan system will be integrated into a comprehensive program for modernisation and expansion of the transport infrastructure in the Russian Arctic and contribute to fulfilling Russia’s strategic goal of increasing cargo traffic along the Northern Sea Route.
In 2018, domestic and international sales of gas (natural and associated gas, excluding Gazprom Neft’s share in Northgas and Arcticgas joint ventures) declined 5.7% year-on-year on the back of declining production of associated petroleum gas and natural gas by the Company’s subsidiaries.

**PETROLEUM PRODUCT SALES**

In 2018, sales of petroleum products rose 5.6% year-on-year to 45.91 mt due to an increase in the volume of oil refined at the Company’s refineries. Sales were growing across the entire range of products.

Jet fuel sales were up 9.4% reaching 3.84 mt. Key drivers behind the growth were higher passenger traffic at Russian airports during the 2018 FIFA World Cup and the launch of new passenger traffic at Russian airports during key events.

Higher demand in Russia’s north-western and Black Sea ports drove a 7.7% year-on-year increase in bunker volumes in 2018. Premium sales of oils and motor fuels increased 6.9% and 1.9%, respectively.

**MOTOR FUEL AND FILLING STATIONS**

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 high customer confidence helps the Company to achieve 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.

The 1.9% year-on-year growth of motor fuel sales in the premium channels in 2018 was driven by higher sales to existing and new corporate clients.

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.

**SALES STRUCTURE BY CHANNEL**

**Premium sales** in the reporting period increased 3.7% to 27.1 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 jet fuel, premium bitumen and lubricants sales allowed the Company to increase its share in relevant retail segments in the reporting year. Jet fuel and bitumen sales in the premium channels were up 10.2% and 20.7%, respectively.

Higher demand in Russia’s north-western and Black Sea ports drove a 7.7% year-on-year increase in bunker volumes in 2018. Premium sales of oils and motor fuels increased 6.9% and 1.9%, respectively.

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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 high customer confidence helps the Company to achieve 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.

The 1.9% year-on-year growth of motor fuel sales in the premium channels in 2018 was driven by higher sales to existing and new corporate clients.

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.
Filling station network
As at the end of 2018, the Company’s retail network consisted of 1,878 filling stations. Out of this number, 1,260 stations operated in Russia, including 1,190 stations owned by Gazprom Neft and 70 stations managed by franchisees. In 2018, Gazprom Neft opened five new filling stations in Russia. Given the franchise outlets, the Gazprom Neft retail network operates in 40 regions nationwide. As at the year-end, the Company’s share in retail motor fuel sales on regional markets amounted to 23.7% (up 0.5 pp y-o-y).

Internationally, Gazprom Neft’s retail network consists of 618 filling stations, including 201 outlets in the CIS countries (Belarus, Kazakhstan, Tajikistan and Kyrgyzstan) and 417 stations in Southeastern Europe (Serbia, Bosnia and Herzegovina, Bulgaria and Romania). In Southeastern Europe, the Company is optimising its retail network to increase its cost effectiveness. At the same time, the Company expanded its retail network in the CIS market in 2018 by adding 13 new outlets (nine stations in Kazakhstan and two in each of Belarus and Tajikistan).

As at the end of 2018, the total retail sales of motor fuels at 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. The average daily sales in Europe increased to 6.2 tpd in 2018 (up 1.6% year-on-year).

A new digital solution – online product sales through an electronic trading platform – is now available for small wholesale buyers. Thanks to the online platform, the Company’s customers receive fuel within 24 hours after they place a fixed-price order. Over 9 kt of fuel has been sold through the electronic trading platform since its launch in 2018.

Filling stations

<table>
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<tr>
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<td>Europe</td>
<td></td>
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Digital gasoline tanker

In 2018, Gazprom Neft implemented an array of digital solutions to ensure security and quality of motor fuel shipped by motor vehicles. The vehicles are monitored from a remote control centre that receives up to 20 parameters per gasoline tanker in real time. The online monitoring system covers over 2.5 thousand sites, including tank farms, filling stations, and tanker parking lots. The system informs the operator of any unscheduled stops or deviations from the route.

Electronic seals are installed on the tankers to control fuel security along the route. In case of unauthorised opening, they send an alarm signal to the operator. Video cameras monitor the traffic situation on the route and the driver’s activities. Currently, the Company is developing an AI-powered video analysis to assess the driving habits of tanker drivers.
Non-oil sales

The Company is committed to developing its retail non-oil sales. In 2018, the total revenue from non-oil sales rose 5.6% year-on-year to ₽19.6 bn.

Strong growth of non-oil sales is proved by unit economics (an above-target increase in non-oil sales per tonne of sold petroleum products and square meter of retail area). The above-target growth contributed to the improvement in business KPIs.

In 2018, Gazprom Neft launched AZ5.00, a mobile application designed to facilitate fuel sales and payments at its filling stations.

AZ5.00 is an in-house development of the Company. 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 bankcard 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. 182 Gazprom Neft stations were equipped with the loyalty cards increased by 1.1 million. At the end of 2018, 11.1 million motorists were members of the loyalty program in Russia and the CIS, up 11.5% year-on-year. They generate 82% of total retail sales at filling stations in Russia.

The key indicator of Gazprom Neft customers’ loyalty, the NPS index, remained flat in 2018 versus 2017 (adjustment for the price). In November, the NPS index reached 59 points. This speaks for 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, which resulted in additional sales of 99.3 kt of fuel. Marketing events organised by the Company covered 5.2 million retail customers.

In 2018, the Company also held 10 target marketing campaigns covering over 2.5 million customers. They resulted in additional sales of 54.5 kt of fuel.

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In 2018, the Company sold its CNG production and marketing business to Gazprom Gas-Engine Fuel as part of its efforts to optimise operations on the compressed natural gas (CNG) market. In the reporting period, CNG sales decreased 53.7% year-on-year to 8,949 kt.

By contrast, sales of liquefied petroleum gas (LPG) increased substantially. In 2018, LPG sales were up 23.7% reaching 120 kt due to an 18.8 kt increase in domestic sales and the launch of LPG sales in Kazakhstan, where 3.2 kt of the product was sold.

In 2018, the number of gas filling stations integrated into Gazprom Neft’s multi-fuel refuelling facilities decreased by six to 145 stations.

AVIATION REFUELLING

In 2018, the Company strengthened its leadership on the retail jet fuel market. The Russian market share increased 0.7 pp to 26.3%.

Premium sales amounted to 3.1 mt, up 10.2% year-on-year. The growth resulted from both increased domestic sales and expanded international operations, including sales at Manas refuelling terminal in Kyrgyzstan and higher refuelling volumes.

In 2018, the Group’s international footprint expanded to include a total of 260 airports in 66 countries. Gazpromneft-Aero started refuelling operations in Malaysia and Gambia and significantly increased its activities at Chinese and Tunisian airports.

In 2018, Gazprom Neft was the first to apply a distributed ledger (blockchain) technology on the Russian jet fuel market. In collaboration with S7 Airlines and Alfa Bank and Gazpromneft-Aero, an operator of the Company’s jet-fuel business, developed a smart fuel supply contract and performed aircraft refuelling with online payment.

The company presented its insight into the smart contract implementation at the global IATA Aviation Fuel Forum in Singapore. Several major international companies from Europe and Asia expressed their interest in it.

First robotic refuelling terminal

In order to implement the fully automated process control concept at a modern refuelling terminal, the Company is working to introduce robotic solutions.

In 2018, Gazprom Neft unveiled a prototype robotic system for loading petroleum products into an airfield refueller truck at the Sheremetyevo International Airport. For the first time in Russia, a robotic arm was used for jet fuel loading in a completely unmanned operation.

The pilot project was implemented by Gazpromneft-Aero and Gazprom Neft’s Digital Innovation Centre (DIC) together with the Russian State Scientific Centre for Robotics and Technical Cybernetics (RTC). The robotic arm testing is continuing to ensure its further use at airport refuelling terminals.

26.3%

Company’s share in the retail jet fuel market, 2018

**Number of automotive CNG filling stations.**

**Number of automotive gas filling stations integrated into Gazprom Neft’s multi-fuel refuelling facilities.**
BUNKERING

The company provides bunkering services in all key ports of Russia (15 marine and 12 river ports), as well as in the ports of Constanța (Romania), Riga (Latvia) and Tallinn (Estonia). The Company’s customers are major Russian and foreign shipping companies. The Company’s own fleet includes:

- 12 bunkering barges, including one Arctic-class vessel for ship refuelling in the White and Barents Seas;
- 4 Arctic-class shuttle tankers and two icebreakers to ensure uninterrupted oil transportation from the Novoportavskoye field.

In 2018, important areas for the development of the Company’s bunkering business were:

- strengthening positions in the segment of eco-friendly bunker fuels that comply with the Russian Federation requirements for sulphur content;
- bunkering of vessels involved in Gazprom’s projects, including vessels engaged in the construction of the Turkish Stream gas pipeline in the Black Sea and offshore projects in the Arctic and the Sea of Okhotsk;
- launch of the LNG bunkering barge construction².

Increased demand in Russia’s northwestern and Black Sea ports allowed the Company to increase its bunkering volumes by 7.7% to 2.92 mt.

Sales of oils and lubricants

The new G-Energy Synthetic engine oils (5 products) developed from proprietary synthetic base oils was launched. They provide enhanced oxidation resistance and allow lubricants to retain their properties longer. One of the engine oils in the new line – G-Energy Synthetic Long Life 10W-40 – has been already approved by Mercedes-Benz.

In 2018, the Company launched new Gazpromneft GK transformer oils and Gazpromneft White Oils to be used in the food, cosmetics and chemical industry equipment. In addition to that, the Company has started producing the G-Special. Power HVLP line of innovative energy-efficient hydraulic fluids that successfully replace imported products manufactured by ExxonMobil and Shell. Tests confirmed their high quality and compliance with the requirements of key consumers. By 2030, Gazprom Neft plans to hold a 35% share in the market of synthetic energy-efficient hydraulic fluids in Russia and CIS.

The company continues developing its network of premium branded G-Energy Service stations. In 2018, the network added 50 new stations, reaching a total of 170 outlets in 16 countries. Over 360,000 motorists used an express oil change service at partner service stations.
Pilot operational transformation project

Omsk Lubricants Plant was one of Gazprom Neft’s first subsidiaries to adopt the Operations Management System (OMS) Code of Conduct. Employees of the plant learnt how to use lean production tools to reduce losses and increase labour productivity. Engineers studied risk analysis to identify the most critical equipment in terms of HSE. Basic reliability measures were developed and implemented at the pilot unit.

Thanks to regular management practices, plant managers could personally demonstrate the new system efficiency. Gradually, all the employees adopted the OMS tools in their everyday work. The Portal of Initiatives was launched leading to an exponential growth in the number of ideas submitted. However, the biggest success of the project was the creation of an environment that actively engages all employees and motivates them to develop improvements.

In 2018, the Company focused on the development of industrial petroleum products that significantly increase equipment productivity and ensure high fuel economy, thereby reducing the negative environmental impact. In particular, the Company developed G-SPECIAL POWER HVLP, a new line of hydraulic fluids designed for the mining, construction, tree harvesting and agricultural machinery, as well as for industrial equipment. The oils developed using the unique DYNAVIS® technology in collaboration with Evonik, a German manufacturer of specialty chemicals, ensure uninterrupted operation of machinery at extremely high and low temperatures, hydraulic system protection, and fuel economy. All this decreases operating expenditures by reducing the total cost of ownership and increasing operational efficiency and equipment life. According to the test results, the G-SPECIAL POWER HVLP hydraulic fluids scored better than a benchmark fluid demonstrating increased load cycles, improved equipment performance, fuel economy, and reduced risk of hydraulic system failure.

Efficient engine oils

In 2018, the Company successfully launched a new line of G-Energy Synthetic engine oils designed to meet the growing demand for affordable and efficient products for modern passenger cars. The line includes five new products developed taking into account a variety of parameters, including specifics of vehicle operation, driving habits and recommendations of vehicle manufacturers. High consumer benefits of the products are achieved by using the G-Base Synthetic Technology. It is based on the use of G-Base proprietary synthetic base oils, unique formulations and multi-level quality control.

The new products were tested by leading independent accredited laboratories in Europe and the USA. The G-Energy Synthetic Super Start 5W-30 engine oil has successfully passed the NEDC (New European Driving Cycle) fuel economy test. Using the new product will allow a car owner to reduce fuel expenses by up to 2%, which will be relevant for active motorists and owners of large vehicle fleets.

Innovative hydraulic fluids

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Gazprom Neft is one of the largest manufacturers and suppliers of bitumen products in Russia. Gazprom Neft has its own bitumen production facilities in Russia (Moscow, Omsk, Yaroslavl, Ryazan, Vyszma, and Salak), Serbia and Kazakhstan.

In 2018, premium sales of bitumen materials reached 350 kt, up 20.7% year-on-year. The growth was due to a wider range of bitumen, its derivatives and related services offered, as well as an increase in domestic demand, expanded geography of third-party refining and access to new overseas markets. In 2018, the Company started selling premium products in Slovakia, Poland, Moldova and Colombia.

Measures to improve capacity utilization at the large bitumen unit of Moscow Refinery allowed the Company to produce more than 1.5 mln of products in 2018 (its design capacity is 1.7 mtpa). Also in 2018, the Company increased the output at its Ryazan plant by a third to 500 tpd.

Gazprom Neft was the first Russian petroleum company to start developing its own bitumen terminal network. The Company acquired its first asset, Salak (Rostov Region) high-tech production and logistics terminal, in 2018. It will become an important element to reinforce its logistics system that will ensure the supply of innovative bitumen products throughout Russia’s southern regions.

The terminal is capable of transhipping up to 140 ktpa of PMACs. Automated temperature control in bitumen tanks maintains the product quality, and the mixing system ensures product homogeneity. In addition to that, the plant operates a PMAC manufacturing unit.

The Company’s bitumen business unit also carries out breakthrough projects, including automation of product quality assurance and logistic schemes based on digital simulations.

**PETROCHEMICALS**

Gazprom Neft is the largest Russian producer of several basic petrochemicals, such as aromatic hydrocarbons (benzene, paraxylene, orthoxylene, and toluene) and propylene-propylene fraction (propylene-containing LPG). Basic petrochemicals are manufactured at the Gazprom Neft Group’s refineries in Omsk, Moscow and Yaroslavl.

Deep conversion petrochemicals (polypropylene) are produced at NPP Neftekhimiya (Moscow) and Poliom (Omsk). In 2018, propylene production totalled 134 kt at NPP Neftekhimiya and 214 kt at Poliom. NPP Neftekhimiya achieved a maximum hourly production rate of 17.25 t per hour, thus establishing its own absolute record. Thanks to this, the plant surpassed its previous annual propylene production record by 2.5%.

Polymer modified asphalt cements (PMACs) are made of bitumen by adding polymers and plasticizers. Compared to base bitumens, PMACs have improved qualities, such as increased resistance to deformation, improved adhesion to asphalt layers and increased resistance to aging. Such materials expand the time between road repairs, doubling their lifespan. Gazpromneft Bitumen Materials develops such products in its own research and development centre.

**SUSTAINABLE DEVELOPMENT**

The technologies currently under development will, on the one hand, accumulate parameters of finished products and, on the other hand, analyse the entire binder production process and formulate future quality properties of the product by comparing the resulting parameters with the accumulated database. This will help create a system that will formulate finished product properties online.

The Digital Process Engineer project implemented by Gazprom Neft’s bitumen business unit involves creation of a mathematical simulation that will try to correlate the properties of raw materials and finished products based on the analysis of large data sets. Using the data obtained, the Company’s experts will be able to create new formulations, superior to all the existing ones.

The project is hosted by Ryazan Bitumen Binders Plant (RBBP) that collects and accumulates production statistics. RBBP will produce new products to be formulated by artificial intelligence. The research centre of Gazpromneft Bitumen Materials located in Ryazan will act as a think tank tasked with creating and training the Digital Process Engineer.

**Smart Logistics**

Based on the process capacity of Gazprom Neft’s bitumen business unit, IT solutions are developed to manage the supply of bitumen materials to any location at a predetermined time. These solutions will improve the efficiency of road transportation logistics. The Smart Logistics project focuses on the development, testing and implementation of real-time data accumulation and processing solutions (Big Data and Fast Data) to optimise and improve the efficiency of logistics, processing and sales of petroleum products.
Starting from 1 January 2018, the Group has been applying IFRS 15 Revenue from Contracts with Customers. In line with its transitional provisions, the Group applies the standard retrospectively, adjusting the comparative data for 2017 financial year:

- expenses associated with export duties in the amount of ₽76.7 bn were reclassified;
- revenue from transportation services in the amount of ₽2.0 bn, included in the sales price of petroleum products, was reclassified from Crude oil, gas and petroleum product sales to Other revenue.
- crude oil, gas and petroleum product sales were disclosed net of 2017 excise taxes of ₽69 bn (vs ₽92.8 bn for 2018).

In 2018, Gazprom Neft showed sustainable growth across key financial indicators. The Company’s revenue went up by 28.7% to ₽2.49 tn, which was driven by a favourable pricing environment, improved operational efficiency and consistent production growth at the Novoportovskoye, Prirazlomnoye and Vostochno-Messoyakhskoye fields.

### Key financial indicators (IFRS)

#### Key financial indicators (₽ m)

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<tr>
<td>Crude oil, gas and petroleum products sales</td>
<td>1,444,558</td>
<td>1,581,777</td>
<td>1,637,553</td>
<td>1,870,790</td>
<td>2,618,717</td>
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<td>Less: export duties and sales related excise</td>
<td>(282,319)</td>
<td>(197,832)</td>
<td>(150,156)</td>
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<td>Other revenue</td>
<td>45,999</td>
<td>72,998</td>
<td>58,211</td>
<td>63,799</td>
<td>70,757</td>
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<td>Total revenue</td>
<td>1,408,238</td>
<td>1,657,963</td>
<td>1,655,608</td>
<td>1,934,589</td>
<td>2,489,292</td>
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#### COSTS AND OTHER DEDUCTIONS

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<tr>
<td>Purchases of oil, gas and petroleum products</td>
<td>(382,303)</td>
<td>(345,709)</td>
<td>(351,294)</td>
<td>(456,037)</td>
<td>(617,306)</td>
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<tr>
<td>Production and operating expenses</td>
<td>(317,711)</td>
<td>(271,267)</td>
<td>(287,863)</td>
<td>(321,530)</td>
<td>(328,619)</td>
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<td>Selling, general and administrative expenses</td>
<td>(36,218)</td>
<td>(100,176)</td>
<td>(108,981)</td>
<td>(116,827)</td>
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<td>7.7</td>
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<td>Transportation expenses</td>
<td>(114,125)</td>
<td>(133,320)</td>
<td>(132,894)</td>
<td>(141,782)</td>
<td>(147,182)</td>
<td>3.7</td>
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<tr>
<td>Depreciation, depletion and amortisation</td>
<td>(95,951)</td>
<td>(116,283)</td>
<td>(129,845)</td>
<td>(140,398)</td>
<td>(175,451)</td>
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<td>Taxes other than income tax</td>
<td>(343,576)</td>
<td>(353,165)</td>
<td>(381,131)</td>
<td>(492,269)</td>
<td>(652,786)</td>
<td>32.6</td>
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<tr>
<td>Export duties</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(76,458)</td>
<td>(94,916)</td>
<td>23.9</td>
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<td>Exploration expenses</td>
<td>(936)</td>
<td>(922)</td>
<td>(1,195)</td>
<td>(943)</td>
<td>(1,471)</td>
<td>46.5</td>
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<tr>
<td>Total operating expenses</td>
<td>(1,187,122)</td>
<td>(1,261,822)</td>
<td>(1,307,292)</td>
<td>(1,632,066)</td>
<td>(2,032,550)</td>
<td>24.5</td>
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#### OPERATING PROFIT

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<td>Profit before income tax</td>
<td>145,870</td>
<td>145,450</td>
<td>259,539</td>
<td>325,200</td>
<td>408,122</td>
<td>47.6</td>
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<td>Current income tax expense</td>
<td>(17,518)</td>
<td>(38,263)</td>
<td>(21,290)</td>
<td>(43,493)</td>
<td>(59,385)</td>
<td>36.4</td>
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<td>Deferred income tax benefit / (expense)</td>
<td>(1,494)</td>
<td>8,774</td>
<td>(28,524)</td>
<td>(11,827)</td>
<td>(19,564)</td>
<td>65.2</td>
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<tr>
<td>Total income tax benefit / (expense)</td>
<td>(19,214)</td>
<td>(19,292)</td>
<td>(48,816)</td>
<td>(58,523)</td>
<td>(79,129)</td>
<td>42.5</td>
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<tr>
<td>Profit for the period</td>
<td>126,656</td>
<td>126,158</td>
<td>210,723</td>
<td>266,677</td>
<td>329,017</td>
<td>48.7</td>
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<tr>
<td>Less: profit attributable to non-controlling interest</td>
<td>(4,563)</td>
<td>(6,297)</td>
<td>(7,564)</td>
<td>(11,604)</td>
<td>(24,326)</td>
<td>48.3</td>
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<tr>
<td>Profit attributable to Gazprom Neft</td>
<td>122,093</td>
<td>109,861</td>
<td>203,159</td>
<td>252,371</td>
<td>304,690</td>
<td>48.7</td>
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### Revenue

Revenue from sales (₽ m)

<table>
<thead>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>1,644,558</td>
<td>1,581,777</td>
<td>1,637,553</td>
<td>1,870,790</td>
<td>2,618,717</td>
<td>29.3</td>
</tr>
<tr>
<td>Less: export duties and sales related excise</td>
<td>(282,319)</td>
<td>(197,832)</td>
<td>(150,156)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,408,238</td>
<td>1,657,963</td>
<td>1,655,608</td>
<td>1,934,589</td>
<td>2,489,292</td>
<td>28.7</td>
</tr>
</tbody>
</table>
### Production and operating expenses

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Upstream expenses</td>
<td>85,602</td>
<td>98,095</td>
<td>106,765</td>
<td>111,837</td>
<td>112,840</td>
<td>0.9</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>n/a</td>
<td>1,762</td>
<td>1,767</td>
<td>1,724</td>
<td>2.0</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>n/a</td>
<td>n/a</td>
<td>3.63</td>
<td>3.74</td>
<td>3.76</td>
<td>(9.0)</td>
</tr>
<tr>
<td>Consolidated subsidiaries in Russia</td>
<td>63,955</td>
<td>72,856</td>
<td>80,398</td>
<td>84,973</td>
<td>85,135</td>
<td>(0.9)</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>n/a</td>
<td>1,447</td>
<td>1,653</td>
<td>1,579</td>
<td>(6.5)</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>n/a</td>
<td>n/a</td>
<td>3.35</td>
<td>3.38</td>
<td>3.44</td>
<td>(10.9)</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brownfields</td>
<td>57,271</td>
<td>61,225</td>
<td>65,940</td>
<td>67,923</td>
<td>61,114</td>
<td>(10.0)</td>
</tr>
<tr>
<td>$ per toe</td>
<td>1,472</td>
<td>1,582</td>
<td>1,692</td>
<td>1,812</td>
<td>1,757</td>
<td>(3.0)</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>5.22</td>
<td>3.54</td>
<td>3.44</td>
<td>2.76</td>
<td>3.82</td>
<td>(19.7)</td>
</tr>
<tr>
<td>Greenfields</td>
<td>6,484</td>
<td>11,629</td>
<td>14,352</td>
<td>17,975</td>
<td>24,021</td>
<td>33.6</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>n/a</td>
<td>3.35</td>
<td>3.86</td>
<td>3.44</td>
<td>(10.9)</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>n/a</td>
<td>n/a</td>
<td>3.42</td>
<td>3.82</td>
<td>3.82</td>
<td>(10.9)</td>
</tr>
<tr>
<td>Consolidated subsidiaries outside Russia</td>
<td>3,623</td>
<td>9,426</td>
<td>9,450</td>
<td>8,381</td>
<td>9,311</td>
<td>11.1</td>
</tr>
<tr>
<td>(including PSA)</td>
<td>n/a</td>
<td>n/a</td>
<td>6,446</td>
<td>3,059</td>
<td>2,975</td>
<td>(27.7)</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>n/a</td>
<td>4,144</td>
<td>2,975</td>
<td>2,975</td>
<td>(27.7)</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>n/a</td>
<td>n/a</td>
<td>8.43</td>
<td>7.15</td>
<td>7.15</td>
<td>(9.0)</td>
</tr>
<tr>
<td>Joint operations</td>
<td>15,324</td>
<td>15,915</td>
<td>16,719</td>
<td>17,058</td>
<td>18,294</td>
<td>6.8</td>
</tr>
<tr>
<td>$ per toe</td>
<td>1,491</td>
<td>1,787</td>
<td>1,926</td>
<td>2,061</td>
<td>2,232</td>
<td>8.3</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>6.01</td>
<td>6.00</td>
<td>3.92</td>
<td>4.82</td>
<td>4.86</td>
<td>8.8</td>
</tr>
<tr>
<td>Downstream expenses</td>
<td>46,222</td>
<td>53,563</td>
<td>53,132</td>
<td>59,318</td>
<td>58,919</td>
<td>6.5</td>
</tr>
<tr>
<td>Refining expenses at own refineries</td>
<td>26,510</td>
<td>30,724</td>
<td>37,619</td>
<td>37,900</td>
<td>32,251</td>
<td>3.4</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>975</td>
<td>1,082</td>
<td>893</td>
<td>946</td>
<td>920</td>
<td>(6.8)</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>2.72</td>
<td>1.97</td>
<td>1.82</td>
<td>2.26</td>
<td>2.00</td>
<td>(11.5)</td>
</tr>
<tr>
<td>Refining expenses at joint ventures²</td>
<td>14,165</td>
<td>14,648</td>
<td>12,653</td>
<td>12,259</td>
<td>12,496</td>
<td>1.9</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>1,402</td>
<td>1,778</td>
<td>1,469</td>
<td>1,568</td>
<td>1,570</td>
<td>1.4</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>5.69</td>
<td>3.98</td>
<td>3.36</td>
<td>3.67</td>
<td>3.46</td>
<td>(5.7)</td>
</tr>
<tr>
<td>Lubricants and packaged products production expenses</td>
<td>5,567</td>
<td>8,177</td>
<td>10,060</td>
<td>11,868</td>
<td>14,172</td>
<td>19.4</td>
</tr>
<tr>
<td>Transportation to refineries</td>
<td>26,234</td>
<td>27,461</td>
<td>29,541</td>
<td>29,265</td>
<td>32,950</td>
<td>12.6</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>15,653</td>
<td>35,082</td>
<td>12,404</td>
<td>20,110</td>
<td>23,909</td>
<td>18.9</td>
</tr>
<tr>
<td>Total revenue</td>
<td>171,711</td>
<td>214,267</td>
<td>201,862</td>
<td>216,530</td>
<td>228,618</td>
<td>5.6</td>
</tr>
</tbody>
</table>

² Translated at $ at the average exchange rate for the period.
²² PSA refers to production sharing agreement.
² Refining expenses at joint ventures are based on processing agreement.

### ANNUAL REPORT 2018

**PERFORMANCE HIGHLIGHTS**

- **PETROLEUM PRODUCTS**
  - **Net export (excluding CIS)**: 282,085 in 2014 to 330,290 in 2018. 
  - **Export sales (excluding CIS)**: 400,346 in 2014 to 330,290 in 2018.
  - **Export duties**: 
    - 2014: (118,261)
    - 2015: (58,254)
    - 2016: (31,565)
  - **International markets, net**: 184,272 in 2016.
  - **Export sales (excluding CIS)**: 228,346 in 2017.
  - **International markets, net**: 257,803 in 2018.
  - **International markets, net**: 44.6%.
  - **Sales on international markets**: 104,413 in 2014 to 165,880 in 2018.
  - **Sales on international markets**: 107,405 in 2015.
  - **Sales on international markets**: 99,440 in 2016.
  - **Sales on international markets**: 112,912 in 2017.
  - **Sales on international markets**: 145,980 in 2018.
  - **Sales on international markets**: 46.9%.
  - **Domestic market**: 715,853 in 2014.
  - **Domestic market**: 740,520 in 2015.
  - **Domestic market**: 743,721 in 2016.
  - **Domestic market**: 866,236 in 2017.
  - **Domestic market**: 1,075,927 in 2018.
  - **Domestic market**: 24.2%.
  - **Total petroleum products revenue**: 1,166,340 in 2014 to 1,663,431 in 2018.
  - **Total petroleum products revenue**: 1,128,472 in 2015.
  - **Total petroleum products revenue**: 1,099,271 in 2016.
  - **Total petroleum products revenue**: 1,283,550 in 2017.
  - **Total petroleum products revenue**: 1,663,431 in 2018.
  - **Total petroleum products revenue**: 29.6%.

- **Other revenue**: 45,999 in 2014.
- **Other revenue**: 58,211 in 2016.
- **Other revenue**: 63,799 in 2017.
- **Other revenue**: 70,575 in 2018.
- **Other revenue**: 8.6%.
- **Total revenue**: 1,408,238 in 2014.
- **Total revenue**: 1,467,943 in 2015.
- **Total revenue**: 1,545,608 in 2016.
- **Total revenue**: 1,934,589 in 2017.
- **Total revenue**: 2,489,292 in 2018.
- **Total revenue**: 28.7%.

1 Mainly comprises revenue from the sale of transportations, constructions, and utility services.

2 Translated to $ at the average exchange rate for the period.
3 PSA refers to production sharing agreement.
4 Refining expenses at joint ventures are based on processing agreement.
Upstream expenses include costs attributable to raw materials and supplies, equipment maintenance and repair, wages and salaries, fuels and lubricants, electricity, oil recovery activities and other similar costs at the Group’s upstream facilities.

A 4.5% decrease y-o-y in upstream expenses per toe (₽ per toe) at the consolidated subsidiaries in Russia was primarily driven by the reduction in brownfield expenses by 3% y-o-y due to cost-cutting efforts:

- shutdown of low-margin wells [low well flows and high watercut];
- decreased workover activities.

Upstream expenses per boe (₽ per boe) at the consolidated subsidiaries outside Russia went down by 9.5% y-o-y due to the increased production in Iraq. Upstream expenses per boe for joint operations increased by 8.3% y-o-y primarily due to the production cut in line with the OPEC deal.

Refining expenses at own refineries include costs attributable to raw materials and supplies, equipment maintenance and repair, wages and salaries, electricity and other similar expenses.

Refining expenses per tonne at own refineries went down by 4.8% due to:

- throughput growth;
- cost-cutting initiatives [upgrade of facilities, optimisation of additives and energy costs].

Unit refining expenses at joint ventures added 1.4% y-o-y due to the increased processing expenses [launch of new refining units and increased natural gas costs].

Lubricants production expenses went up by 19.4% y-o-y caused by higher production volumes, enhanced product range focused on premium lubricants and higher purchased materials costs [including those of additives]. Transportation to refineries expenses went up by 12.6% y-o-y due to higher crude oil supplies to refineries. Other operating expenses increased y-o-y in line with other revenue growth.

Selling, general and administrative expenses

Selling, general and administrative expenses include distribution costs, retail business expenses, remunerations, wages and salaries [excluding remunerations, wages and salaries at upstream subsidiaries and own refineries], social payments, insurance, legal, consulting and audit services, and other expenses.

Selling, general and administrative expenses went up by 7.7% y-o-y following:

- higher selling expenses due to the growth of premium sales;
- higher expenses at foreign subsidiaries due to the rouble depreciation.

Transportation expenses

Transportation expenses relate to crude oil and petroleum products transportation to final customers, including pipeline, and railway transportation, sea freight, handling operations, and other transportation costs. Transportation expenses increased by 3.7% y-o-y due to stronger sales of petroleum products.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation include depletion of crude oil and gas assets, depreciation of other items of PP&E and impairment of crude oil assets. Depreciation, depletion and amortisation increased by 24.4% y-o-y due to higher value of assets subject to depreciation and amortisation associated with the investment programme and increased production at the Novoportovskoye and Prirazlomnoye fields and in Iraq.
Liquidity and capital sources

Cash (₽ m)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash from operating activities</td>
<td>283,965</td>
<td>285,175</td>
<td>321,297</td>
<td>421,700</td>
<td>537,523</td>
<td>27.5</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(364,792)</td>
<td>(314,511)</td>
<td>(323,854)</td>
<td>(312,889)</td>
<td>(335,038)</td>
<td>7.1</td>
</tr>
<tr>
<td>Net cash from / (used in) financing activities</td>
<td>10,573</td>
<td>82,193</td>
<td>(68,430)</td>
<td>(50,521)</td>
<td>(56,543)</td>
<td>11.9</td>
</tr>
<tr>
<td>Net increase / (decrease) in cash and cash equivalents</td>
<td>(70,254)</td>
<td>52,857</td>
<td>(70,987)</td>
<td>58,290</td>
<td>145,942</td>
<td>150.4</td>
</tr>
</tbody>
</table>

Net cash from operating activities went up by 27.5% y-o-y primarily due to higher operating profit and dividends received from joint ventures.

Changes in working capital 23,907 18,342 15,216 52,809 326 (99.4)

Income tax paid (30,122) (19,522) (22,158) (36,530) (61,157) 67.4

Interest paid (16,624) (28,229) (36,476) (39,449) (46,492) 17.9

Dividends received 2,383 2,415 3,148 5,551 20,063 >200

Total 283,965 285,175 321,297 421,700 537,523 27.5

Net cash used in investing activities went up by 7.1% y-o-y primarily due to higher capital expenditures.

Capital expenditures for exploration and production increased by 1.8% y-o-y due to:
- the launch of hi-tech icebreakers;
- participation in subsoil tenders (Savitsky, Pokhvistnevsky, and Karabashsky licence blocks).

Capital expenditures for refining increased by 15.8% y-o-y following the plant upgrade in Serbia (construction of delayed coker unit).

Debt and liquidity (₽ m)

<table>
<thead>
<tr>
<th>Item</th>
<th>as at 31.12.2016</th>
<th>as at 31.12.2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term loans and borrowings</td>
<td>61,121</td>
<td>167,319</td>
</tr>
<tr>
<td>Long-term loans and borrowings</td>
<td>502,304</td>
<td>670,779</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>192,167</td>
<td>114,196</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>(76,658)</td>
<td>(43,206)</td>
</tr>
<tr>
<td>Net debt</td>
<td>433,402</td>
<td>654,474</td>
</tr>
<tr>
<td>Short-term debt / total debt (%)</td>
<td>10.8</td>
<td>18.0</td>
</tr>
<tr>
<td>Net debt / EBITDA LTM</td>
<td>1.44</td>
<td>1.90</td>
</tr>
</tbody>
</table>

Net cash used in financing activities increased by 11.9% y-o-y. Dividends paid for 2017 (₽ 15 per share) exceeded dividend payments for 2016 (₽ 10.68 per share).

Capital expenditures (₽ m)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploration and production</td>
<td>192,739</td>
<td>255,235</td>
<td>245,256</td>
<td>223,916</td>
<td>227,883</td>
<td>1.8</td>
</tr>
<tr>
<td>Refining</td>
<td>26,765</td>
<td>31,552</td>
<td>50,095</td>
<td>81,370</td>
<td>94,263</td>
<td>15.8</td>
</tr>
<tr>
<td>Marketing and distribution</td>
<td>13,576</td>
<td>13,547</td>
<td>9,728</td>
<td>12,466</td>
<td>16,060</td>
<td>28.8</td>
</tr>
<tr>
<td>Other</td>
<td>10,731</td>
<td>13,317</td>
<td>14,724</td>
<td>16,227</td>
<td>19,937</td>
<td>22.9</td>
</tr>
</tbody>
</table>

Capital expenditures for exploration and production increased by 1.8% y-o-y due to:
- the launch of hi-tech icebreakers;
- participation in subsoil tenders (Savitsky, Pokhvistnevsky, and Karabashsky licence blocks).

Capital expenditures for refining increased by 15.8% y-o-y following the plant upgrade in Serbia (construction of delayed coker unit).

Before the effect of changes in working capital, income tax, interest and dividends.
The Group’s diversified debt portfolio includes syndicated and bilateral loans, bonds and other instruments. The Group’s net debt went down by 9.6% to ₽ 527.87 bn. Net debt / EBITDA decreased by 0.46 pp to 0.73x.

The average debt maturity went up from 3.6 years as at 31 December 2017 to 3.84 years as at 31 December 2018. The average interest rate increased from 5.54% as at 31 December 2017 to 6.29% as at 31 December 2018.

For reference

**EBITDA analysis (₽ bn)**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>126,656</td>
<td>116,198</td>
<td>209,725</td>
<td>247,878</td>
<td>400,993</td>
<td>48.7</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>19,214</td>
<td>29,252</td>
<td>49,814</td>
<td>56,127</td>
<td>79,127</td>
<td>42.5</td>
</tr>
<tr>
<td>Finance expense</td>
<td>15,279</td>
<td>33,943</td>
<td>34,282</td>
<td>25,127</td>
<td>21,476</td>
<td>14.5</td>
</tr>
<tr>
<td>Finance income</td>
<td>(7,075)</td>
<td>(14,732)</td>
<td>(11,071)</td>
<td>(10,098)</td>
<td>(7,506)</td>
<td>(25.7)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>89,951</td>
<td>114,083</td>
<td>129,845</td>
<td>140,998</td>
<td>175,451</td>
<td>24.4</td>
</tr>
<tr>
<td>Net foreign exchange gain / (loss)</td>
<td>52,265</td>
<td>67,910</td>
<td>(28,300)</td>
<td>241</td>
<td>33,558</td>
<td>&gt;200</td>
</tr>
<tr>
<td>Other income / (expenses) [net]</td>
<td>8,471</td>
<td>(1,494)</td>
<td>17,982</td>
<td>7,507</td>
<td>19,794</td>
<td>162.0</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>300,761</td>
<td>345,160</td>
<td>402,277</td>
<td>489,325</td>
<td>722,897</td>
<td>47.8</td>
</tr>
<tr>
<td>Less: share of profit of associates and joint ventures</td>
<td>4,306</td>
<td>(24,950)</td>
<td>(31,114)</td>
<td>(28,506)</td>
<td>(60,704)</td>
<td>99.7</td>
</tr>
<tr>
<td>Plus: the share of EBITDA of equity accounted investments and joint ventures</td>
<td>35,947</td>
<td>84,607</td>
<td>88,007</td>
<td>107,444</td>
<td>167,313</td>
<td>55.7</td>
</tr>
<tr>
<td><strong>Total adjusted EBITDA</strong></td>
<td>342,614</td>
<td>404,811</td>
<td>456,198</td>
<td>550,767</td>
<td>799,506</td>
<td>45.1</td>
</tr>
</tbody>
</table>

For more details on the Company’s debt, see the Debt Portfolio and Credit Ratings subsection on p. 202

**Adjusted EBITDA (₽ bn)**

<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>Value</td>
<td>342,614</td>
<td>404,811</td>
<td>456,198</td>
<td>550,767</td>
<td>799,506</td>
</tr>
</tbody>
</table>

**Adjusted ROACE (%)**

<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>Value</td>
<td>31.1</td>
<td>27.5</td>
<td>29.5</td>
<td>28.5</td>
<td>32.1</td>
</tr>
</tbody>
</table>

**Profitability (%)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted EBITDA margin</td>
<td>24.33</td>
<td>29.58</td>
<td>29.52</td>
<td>28.68</td>
<td>3.2</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>8.99</td>
<td>7.92</td>
<td>13.57</td>
<td>13.74</td>
<td>16.11</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>4.92</td>
<td>5.07</td>
<td>8.33</td>
<td>7.86</td>
<td>12.43</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>11.90</td>
<td>9.77</td>
<td>15.58</td>
<td>17.38</td>
<td>21.97</td>
</tr>
<tr>
<td>Adjusted return on average capital employed (adjusted ROACE)</td>
<td>13.07</td>
<td>12.15</td>
<td>11.77</td>
<td>11.90</td>
<td>19.66</td>
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</table>

**Adjusted ROACE (%)**

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</thead>
<tbody>
<tr>
<td>Adjusted EBITDA</td>
<td>404,811</td>
<td>456,198</td>
<td>550,767</td>
<td>799,506</td>
<td></td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>(140,659)</td>
<td>(158,919)</td>
<td>(178,449)</td>
<td>(216,480)</td>
<td></td>
</tr>
<tr>
<td>Effective income tax charge on EBIT</td>
<td>(53,501)</td>
<td>(62,429)</td>
<td>(71,605)</td>
<td>(114,725)</td>
<td></td>
</tr>
<tr>
<td>Adjusted EBIT</td>
<td>210,651</td>
<td>234,850</td>
<td>300,913</td>
<td>468,301</td>
<td></td>
</tr>
<tr>
<td>Adjusted ROACE</td>
<td>12.15</td>
<td>11.77</td>
<td>13.90</td>
<td>19.48</td>
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**Liquidity**

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<td>13.90</td>
<td>19.48</td>
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**Leverage**

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</thead>
<tbody>
<tr>
<td>Net debt / total assets (%)</td>
<td>20.67</td>
<td>25.18</td>
<td>19.93</td>
<td>(4.9)</td>
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<tr>
<td>Net debt / equity (%)</td>
<td>38.38</td>
<td>43.45</td>
<td>35.20</td>
<td>(8.7)</td>
<td></td>
</tr>
<tr>
<td>Average leverage (%)</td>
<td>31.11</td>
<td>36.05</td>
<td>30.80</td>
<td>25.97</td>
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**Net debt / market capitalisation**

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</tr>
</thead>
<tbody>
<tr>
<td>Net debt / market capitalisation</td>
<td>0.66</td>
<td>0.84</td>
<td>0.51</td>
<td>0.32</td>
<td>(37.7)</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>1.44</td>
<td>1.90</td>
<td>1.60</td>
<td>1.19</td>
<td>0.73</td>
</tr>
<tr>
<td>Total debt / EBITDA</td>
<td>1.87</td>
<td>2.37</td>
<td>1.68</td>
<td>1.07</td>
<td>(23.0)</td>
</tr>
</tbody>
</table>

*Return on average capital employed.

* Adjusted EBIT represents the Group’s EBIT and its share of EBIT of associates and joint ventures.
The main macroeconomic factors affecting the Company's performance

The main factors affecting the Group’s performance include:
- Changes in market prices for crude oil and petroleum products;
- Changes in RUB/USD exchange rate and inflation;
- Taxation;
- Changes in transportation tariffs for crude oil and petroleum products.

Changes in market prices for crude oil and petroleum products

Crude oil and petroleum products prices on the international and Russian markets are the main factor affecting the Group’s performance.

Prices for petroleum products on the international market are determined by the global oil prices, petroleum products demand and supply, and competition in different markets. In turn, prices in the international market affect those in the domestic market. Price trends for different types of petroleum products differ.

The increase in crude oil and petroleum product prices on the international markets in 2018 had a positive impact on the Group’s results.

Crude oil and petroleum product prices

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<tbody>
<tr>
<td>INTERNATIONAL MARKET ($/BBL)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brent</td>
<td>98.95</td>
<td>52.46</td>
<td>43.73</td>
<td>54.09</td>
<td>71.16</td>
<td>31.6</td>
</tr>
<tr>
<td>Urals Spot (average Med + NWE)</td>
<td>96.94</td>
<td>51.49</td>
<td>42.02</td>
<td>52.94</td>
<td>69.86</td>
<td>32.0</td>
</tr>
<tr>
<td>INTERNATIONAL MARKET ($/T)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Premium gasoline (average NWE)</td>
<td>918.72</td>
<td>549.96</td>
<td>437.05</td>
<td>597.58</td>
<td>676.67</td>
<td>21.0</td>
</tr>
<tr>
<td>Naphtha (average Med + NWE)</td>
<td>825.28</td>
<td>430.05</td>
<td>377.85</td>
<td>477.10</td>
<td>595.99</td>
<td>24.9</td>
</tr>
<tr>
<td>Diesel fuel (average NWE)</td>
<td>854.41</td>
<td>500.70</td>
<td>398.58</td>
<td>493.65</td>
<td>641.23</td>
<td>29.9</td>
</tr>
<tr>
<td>Gasoil 0.1% (average Med)</td>
<td>837.77</td>
<td>486.26</td>
<td>391.21</td>
<td>483.49</td>
<td>632.07</td>
<td>30.7</td>
</tr>
<tr>
<td>Fuel oil 3.5% (average NWE)</td>
<td>518.48</td>
<td>247.49</td>
<td>199.93</td>
<td>290.96</td>
<td>387.07</td>
<td>33.0</td>
</tr>
<tr>
<td>DOMESTIC MARKET ($/T)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-octane gasoline</td>
<td>31,948</td>
<td>32,488</td>
<td>34,574</td>
<td>36,820</td>
<td>41,724</td>
<td>13.3</td>
</tr>
<tr>
<td>Low-octane gasoline</td>
<td>28,071</td>
<td>28,635</td>
<td>29,858</td>
<td>31,931</td>
<td>37,249</td>
<td>16.7</td>
</tr>
<tr>
<td>Diesel</td>
<td>27,764</td>
<td>28,764</td>
<td>27,960</td>
<td>32,619</td>
<td>41,070</td>
<td>25.9</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>9,014</td>
<td>7,202</td>
<td>6,051</td>
<td>9,594</td>
<td>14,319</td>
<td>49.2</td>
</tr>
</tbody>
</table>

Change in RUB/USD exchange rate and inflation

The Group’s management has determined that the reporting currency is the Russian rouble. The functional currency of each of the Group’s subsidiary is the currency of the economic environment where the entity operates. For most entities, this is the Russian rouble.

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</thead>
<tbody>
<tr>
<td>Change in Consumer Price Index (CPI) (%)</td>
<td>11.4</td>
<td>12.9</td>
<td>5.4</td>
<td>2.5</td>
<td>4.30</td>
<td></td>
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<tr>
<td>Average RUB/USD exchange rate for the period (P)</td>
<td>38.42</td>
<td>40.96</td>
<td>67.03</td>
<td>58.35</td>
<td>62.71</td>
<td></td>
</tr>
<tr>
<td>USD/RUB exchange rate as at the beginning of the period (P)</td>
<td>32.73</td>
<td>56.26</td>
<td>72.88</td>
<td>60.66</td>
<td>57.60</td>
<td></td>
</tr>
<tr>
<td>USD/RUB exchange rate as at the end of the period (P)</td>
<td>56.26</td>
<td>72.88</td>
<td>60.66</td>
<td>57.60</td>
<td>69.87</td>
<td></td>
</tr>
<tr>
<td>Change in RUB/USD exchange rate for the period (%)</td>
<td>72</td>
<td>30</td>
<td>117</td>
<td>53</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>

Taxation

Average tax rates for Russia’s oil and gas companies in the reporting periods

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<thead>
<tr>
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<tbody>
<tr>
<td>EXPORT DUTY ($/T)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>386.14</td>
<td>120.25</td>
<td>75.61</td>
<td>84.76</td>
<td>128.48</td>
<td>48.1</td>
</tr>
<tr>
<td>Light petroleum products</td>
<td>241.63</td>
<td>97.67</td>
<td>30.21</td>
<td>25.99</td>
<td>38.52</td>
<td>48.2</td>
</tr>
<tr>
<td>Diesel</td>
<td>237.93</td>
<td>97.67</td>
<td>30.21</td>
<td>25.99</td>
<td>38.52</td>
<td>48.2</td>
</tr>
<tr>
<td>Gasoline</td>
<td>329.48</td>
<td>93.75</td>
<td>46.07</td>
<td>25.99</td>
<td>38.52</td>
<td>48.2</td>
</tr>
<tr>
<td>Naphtha</td>
<td>329.48</td>
<td>102.17</td>
<td>53.63</td>
<td>47.67</td>
<td>70.63</td>
<td>48.1</td>
</tr>
<tr>
<td>Heavy petroleum products</td>
<td>241.63</td>
<td>91.34</td>
<td>61.96</td>
<td>84.76</td>
<td>128.48</td>
<td>48.1</td>
</tr>
<tr>
<td>MINERAL EXTRACTION TAX ($/T)</td>
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<tr>
<td>Crude oil</td>
<td>5,931</td>
<td>4,324</td>
<td>5,770</td>
<td>8,134</td>
<td>12,655</td>
<td>53.1</td>
</tr>
</tbody>
</table>
From strategic goals to engineering projects is what underpins Gazprom Neft’s approach to innovations. Our Company develops and implements technologies necessary to address challenges as it is working towards its strategic goals.

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

Our priorities include:
- growth of oil recovery factor in brownfields;
- development of multiphase fields;
- development of low-permeability reservoirs;
- efficient and safe offshore development in ice conditions;
- catalyst R&D and production to support oil refining.

Projects seeking to develop, test and implement necessary technologies are both ongoing and planned across all focus areas.

TECHNOLOGY STRATEGY DEVELOPMENT IN 2018
In 2018, the Technology Strategy was updated to focus on cross-functional initiatives integral to new major upstream projects.

In recent years, we have created a fully-fledged ecosystem of proprietary software operating in an integrated information space. Now we have a fully digitalized and verified database and tools which make it easy to operate. Our primary task is to make best investment decisions leveraging our own digital technologies for project management. What makes our Company efficient and competitive is that we develop this software internally, capitalising on our key competencies.”

Mars Khasanov
Head of Technologies
Directorate at Gazprom Neft
and CEO of Gazprom Neft
Scientific and Research Centre

In 2018, the Company obtained 26 patents (including one in the USA) and filed 26 applications with the Federal Service for Intellectual Property (Rospatent) covering key oil refining solutions such as hydrocracking, hydrocracker, alkylation and catalyst reactivation for hydrogen treatment purposes, all of which help the Company achieve its strategic goals.

In 2018, the Company was engaged in around 30 oil refining projects covering its key focus areas:
- catalyst production technologies, including those for catalytic and hydrogen cracking;
- advanced oil refining technologies such as hydrotreater, reforming, etc.;
- other advanced R&D focused on oil refining.

R&D STRATEGY OF DOWNSTREAM
The Downstream Division pursues a long-term R&D Strategy. The technologies being developed in partnership with leading Russian R&D centres and educational institutions allow the Company to increase the output of high-margin products depending on technological capabilities of each specific refinery, while also lowering its operating costs.

In 2018, the Company was engaged in around 30 oil refining projects covering its key focus areas.

BASIC DOCUMENTS
UPSTREAM TECHNOLOGY STRATEGY
In 2018, the Upstream Technology Strategy included more than 100 projects covering all of its focus areas, including:
- exploration and resource expansion technologies;
- well drilling and completion technologies;
- enhanced oil recovery and well stimulation;
- development of unconventional reserves;
- development of oil rims;
- Electronic Asset Development (EAD);
- development of carbonate and fractured reservoirs;
- new-generation infrastructure;
- capital investments.

In 2019, the Company will keep on developing its management system for offshore technology projects. An important contribution will come from Mornetgazproject’s Centre for Offshore Competencies, which was launched in late 2017.

TECHNOLOGICAL DEVELOPMENT
Innovative management

More details on the Technology Strategy

Gazprom Neft’s R&D focus

More information on the Technology Strategy

Innovative drilling

Innovative petroleum products

Key exploration technologies
ENHANCED OIL RECOVERY

Gazprom Neft develops chemical solutions 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.

The Company implements its Innovative Development Programme focused on enhanced oil recovery at mature fields, development of hard-to-recover reserves, continuous improvement of well productivity as well as catalyst development and production for catalytic and hydrogen cracking.

In 2018 highlights:
> a pilot project for ASP flooding completed, confirming the tech efficiency;
> multi-stage hydraulic fracturing proved to be highly efficient in developing the Bazhenov Formation;
> a platform launched to test technologies at the Bazhenov Formation;
> well drilling and completion improved with longer horizontal sections and new frac solutions;
> Company’s proprietary solutions introduced into commercial production, including a new version of the cracking catalyst with an active matrix, as well as isodewaxing and oligomerization catalysts;
> design documentation completed for a high-tech catalyst production facility in Omsk;
> development of new materials, APG utilisation technologies and oil refining processes is underway.

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.

Gazprom Neft takes a pragmatic approach to developing and implementing new technologies. It acquires robust solutions available in the market and adapts them to its specific assets. At the same time, the Company promotes innovation in the R&D market by encouraging partners to create new solutions and acting as their first customer. It also partners with domestic and foreign players to develop unique solutions unavailable in the market.

ESTABLISHING THE BAZHEN TECHNOLOGY CENTRE

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 Bazhenov 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.

OIL IMPROVING WELL PRODUCTIVITY

Increasing the efficiency in well drilling and completion is another priority for Gazprom Neft. As the Company develops harder-to-recover reserves, it needs to increase producing rates of new wells and reduce construction costs in order to make those economically viable.

In 2018, the Company drilled long horizontal wells (up to more than 2,000 m long) and multilateral wells with cased boreholes, used hydraulic fracturing (high volume, acid and proppant fracturing techniques), and rolled out the previously tested underbalanced drilling technique.

REFINING CATALYSTS

Gazprom Neft’s strategic projects include construction of a high-tech catalyst production facility to meet the needs of the Russian oil-refining industry for cutting-edge catalysts used in catalytic cracking and hydrotreatment.

Gazprom Neft’s refiners in Omsk and Moscow have been using cracking catalysis developed in cooperation with Russian R&D institutions. In 2018, the Omsk Refinery started using the newest cracking catalyst to enhance the yield of gasoline fraction. Also, it now relies on an isodewaxing catalyst to process winter and Arctic grade diesel fuels. This catalyst contains no precious metals (platinum or palladium), making it much cheaper than similar catalysts. Moscow Refinery introduced its own oligomerisation catalyst with a 2.5 longer service cycle, which helped increase the yield of high-octane blending component by 30%.

Gazprom Neft’s Innovative Development Programme to 2025

The Company relies on the Upstream Division’s Technology Strategy and the Downstream Division’s R&D Strategy. The former includes more than 100 projects while the latter includes around 30 projects. The 2018 R&D highlights include new materials, APG utilisation technologies, and oil refining processes.

In collaboration with Russian scientists, Gazprom Neft managed to produce an ultrahard material prototype for drill bit cutters while also lowering its manufacturing costs as a result of a six-fold reduction in synthesis pressure and optimised finishing treatment.

Mobile modular units for APG treatment are another promising solution which helps 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.

In collaboration with a Russian developer, Gazprom Neft created Anof orm, a unique technology to co-process low-grade straight-run gasoline (RON 60), alcohols (in particular methanol) and catalytic cracking dry gas into marketable gasoline with RON 90-93. The resulting product is fully compliant with Euro-5 emission standards. Our next step is to roll out the technology.

GAZPROM NEFT’S PATENT PORTFOLIO

Gazprom Neft’s patent portfolio

Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>Patents</th>
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<td>45</td>
</tr>
<tr>
<td>2015</td>
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<td>2016</td>
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<td>2017</td>
<td>16</td>
<td>25</td>
</tr>
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<td>2018</td>
<td>26</td>
<td>67</td>
</tr>
<tr>
<td>2019</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>2020</td>
<td>25</td>
<td>57</td>
</tr>
</tbody>
</table>

Software

Patents

Patent applications

Gazprom Neft’s Inno vative Development Programme 2025

The Company will become Russia’s leading catalyst producer. For many years, Gazprom Neft’s refineries in Omsk and Moscow have been using cracking catalysis developed in cooperation with Russian R&D institutions.

In 2018, the new cracking catalyst enabled the plant to produce gasoline and diesel fuel with improved economic and environmental indicators. Gazprom Neft plans to increase the production of high-octane petrol and diesel fuel.

The Company will also enhance the yield of jet fuel and other aviation fuels. It plans to increase the yield of aviation fuels by 20% compared to 2018. The Company will become Russia’s leading jet fuel producer.

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Gazprom Neft plans to increase the production of high-octane petrol and diesel fuel.

The Company will also enhance the yield of jet fuel and other aviation fuels. It plans to increase the yield of aviation fuels by 20% compared to 2018. The Company will become Russia’s leading jet fuel producer.
Research centres and technoparks

**SCIENTIFIC AND RESEARCH CENTRE**
The Group relies on its own Scientific and Research Centre which provides analytical, methodological and R&D support to Upstream Division’s key production and technical functions. The key competencies of Gazprom Neft Scientific and Research Centre include:

- geological modelling;
- advanced well drilling support;
- integral and cost engineering;
- expert review of projects;
- development and implementation of digital solutions.

In 2018, the Scientific and Research Centre had more than 1,000 employees including five professors, seven Post-Doc fellows, and over 76 PhD fellows. It operates from St Petersburg and Tyumen.

The Scientific and Research Centre provides a rationale for substantiating the critical know-how and best practices.

**Gazprom Neft Scientific and Research Centre focuses on:**

- exploration planning and support;
- asset evaluation;
- comprehensive solutions for field development and infrastructure;
- research and development support to drilling and downhole operations;
- oil/gas production technologies and techniques;
- engineering practices and standards;
- engineering-related IT solutions;
- research and development, pilot testing;
- gathering, updating and disseminating know-how and best practices.

**BAZHEN TECHNOLOGY CENTRE**
2018 highlights:

- 8 new Russian drilling technologies tested;
- 10 advanced wells constructed;
- 25% less time required to construct advanced wells (up to 35 days);
- 40% lower cost per unit of oil produced;
- 3 active projects (Bazhen, Domanic and Palaeozoic) containing an estimated 850+ mt in recoverable resources.

The Bazhen Technology Centre is Gazprom Neft’s subsidiary established in 2018. It serves as an open industry platform set to unite efforts of oil and gas players, oilfield services companies, researchers, equipment manufacturers, investors, and the government. This platform will help its participants test new solutions and equipment, including drilling horizontal wells at the Bazhenovo Formation, multi-frac techniques, thermal and chemical reservoir stimulation equipment, software solutions, logging tools, frac equipment, oil gathering and treatment equipment.

The Bazhen Technology Centre will focus on the Palyanovskaya area within the Krasnoleninskoye field located in the Khanty-Mansi Autonomous Area. This asset is well-explored and relatively small, while also boasting the required infrastructure and confirmed commercial inflows from the Bazhenovo Formation.

In 2018, the Bazhen Technology Centre successfully tested a number of new Russian drilling and well intervention technologies.

Gazprom Neft started using a ROST MGRP frac supporting software suite developed in collaboration with the Moscow Institute of Physics and Technology.

The Company’s strategic goal is to create an economically viable technology for the Bazhenovo Formation by 2025.

**CENTRE FOR OFFSHORE COMPETENCIES**
Gazprom Neft plans to concentrate its key offshore development competencies within Morneftegazproject’s Centre for Offshore Competencies.

The Centre for Offshore Competencies focuses on:

- effective goal setting for design and engineering firms engaged in offshore projects;
- control over the work carried out by third-party contractors;
- ownership of projects requiring high-level expertise; and
- offshore know-how systematization and management of related IP rights.

**BITUMENS R&D FACILITY**
In 2016, Gazprom Neft launched an in-house bitumens research and development facility (R&D Centre). Within the framework of Russian vertically integrated oil companies, it was the first platform to provide R&D support for bitumen production.

The R&D Centre focuses on developing technologies to produce bitumen materials that guarantee a significant increase in the road service life.

The facility boasts a unique laboratory that enables the full cycle of research not just on bitumen and its derivatives, but also on asphalt mixes. With its high level of expertise, in some regions the R&D Centre acts as an independent laboratory under the Safe and High-Quality Roads national project.

The facility’s state-of-the-art equipment makes it possible to run the following models:

- actual traffic load;
- traffic intensity and patterns;
- climate conditions in various regions.

Comprehensive research capabilities open up vast horizons for developing bitumen and asphalt formulations that are tailored to specific use scenarios and take into account local inert waste like gravel and sand.
In 2018, Gazprom Neft established the Digital Transformation Directorate with a view to developing and implementing the Company’s long-term digitalisation strategy. The Directorate is tasked to ensure effective implementation and synergies from digital and IT projects, as well as to bring the Company’s key competencies to a new level.

Across all segments of our operations, we are building next-generation systems of process management as part of the Company’s digital transformation. These ensure end-to-end integrated management of process management as part of the value chain from upstream to downstream.

The digitalisation strategy and roadmaps are already in place. Gazprom Neft set up the investment commission for digital transformation to assess projects, approved its consolidated portfolio of IT and digital projects for 2019 and established centres for competencies such as machine learning, artificial intelligence, augmented and virtual realities, blockchain technologies, product design, agile software development, etc.

In 2018, the Company focused on digital transformation projects aiming to support its production divisions as well as corporate functions. In practical terms, it is worth mentioning the major projects that had kicked off in the previous years such as digital drilling and production control, Neftcontrol (oil control) system and the industry’s first Downstream Efficiency Control Centre. 2018 saw some functionality upgrades translating into additional economic benefits.

Also, the Company keeps implementing new major programmes to mainstream digitalisation across its key business lines, including cognitive software for exploration and engineering, digital project management for upstream capital construction and manufacturing execution systems for refineries. Gazprom Neft is aggressively enhancing retail sales based on the Digital Filling Station programme.

Currently, we keep on developing our own digital platform for integrated process management sourcing data from all assets.

Objectives for 2019:
- Approve Gazprom Neft’s Digital Transformation Strategy;
- Participate in developing divisions’ digital transformation strategies; and
- Approve Gazprom Neft’s Digital Transformation Strategy.

Objectives for 2020:
- Roll out digital projects at assets which have proved to have a material business effect;
- Expand digital transformation governance; and
- Develop internal IT infrastructure and competencies to support ongoing digital projects.

The Company’s Digital Transformation Strategy has been developed in line with the following principles:

- Economic and business effect;
- Enable employees to do their jobs more efficiently; and
- Enhance customer satisfaction and employee engagement.

This year, we continued to develop our digital platform for integrated process management, sourcing data from all assets. Currently, we keep on developing our own digital platform for integrated process management, sourcing data from all assets.

Objective for 2019:
- Approve Gazprom Neft’s Digital Transformation Strategy.

Objectives for 2020:
- Implement priority digital projects which have proved to have a material business effect;
- Fine-tune digital transformation governance; and
- Approve Gazprom Neft’s Digital Transformation Strategy.

The digitalisation strategy and roadmaps are already in place. Gazprom Neft set up the investment commission for digital transformation to assess projects, approved its consolidated portfolio of IT and digital projects for 2019 and established centres for competencies such as machine learning, artificial intelligence, augmented and virtual realities, blockchain technologies, product design, agile software development, etc.

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In 2018, Gazprom Neft opened its House of Innovations, a unique cross-functional space for project work relying on end-to-end technologies and data. The House of Innovations brings together leading experts in machine learning, digital platforms, industrial Internet of things, blockchain technologies, augmented and virtual realities and other Industry 4.0 innovations. All these experts come from various branches and divisions of Gazprom Neft but have a common focus – digital technologies. This team spirit helps the business walk through the entire development life cycle from idea to implementation.

The ecosystem of mobile and comfortable shared workplaces coupled with a wide variety of multimedia and interactive working spaces and remote accessibility from anywhere globally provides opportunities for meaningful participation in sophisticated projects, which greatly enhances the efficiency of teamwork. Advanced communications facilitate teamwork areas and rest areas ensures a higher employee engagement.

The 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. It regularly holds awareness sessions to update potential customers on new IT solutions that have proved efficient.

The Technopark of Industrial Automation was established in Omsk as part of the Company’s import substitution strategy. It is a unique platform for research and development, pilot testing and high-tech solutions for the automation of refineries. It includes a number of functional clusters such as training, testing, R&D, a data processing centre, co-working space and a communications centre where working meetings and academic workshops are held.

The Technopark focuses on:
- Instrumentation and automation, including pressure and temperature sensors, analysers, etc.;
- Automated process control systems, including distributed control systems, accident prevention systems, software packages;
- Manufacturing execution systems (MES) for dispatching and scheduling, laboratory information management systems;
- High-tech solutions, including process modelling and optimisation, monitoring and diagnostic systems, computer training systems.

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Digital projects

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Engaging in 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. 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 (the Russian Technological Development Fund).

The Company’s import substitution programme translates into industrial strategies and roadmaps for alternative substitution, the bulk of which is being implemented by partner companies. The Group already relies on Russian power plants, onshore drilling rigs, tanks and vessels for offshore projects, pipes, proppant, additives, oil refining catalysts, and much more.

In 2018, Gazprom Neft expanded its procurements with more than 15 new products unprecedented in Russia. At each and every stage, the Company strives to assist its counterparts in raising external financing and government support.

We also promote import substitution when it comes to our regional development programmes. In 2018, the lubricant import substitution programme covered three more regions – Primorye Territory, Moscow and Amur regions. This drove the number of agreements defining the share of local high-tech products (including import-substitution manufacturing) in the Company’s production processes, to 17.

Import substitution milestones:

- task setting;
- search for potential vendors;
- verification of specifications;
- development of pilot prototypes;
- confirmation testing;
- industrial roll-out.

2018 highlights:

- four import substitution projects funded by the Fund for the Promotion of R&D Start-ups (the Innovation Promotion Fund);
- four strategic partnership agreements signed (Roscosmos, Severstal, Sovnergiomash and Becema, Neftegazavtomatika);
- an agreement 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 up and running.

CASE STUDY: IMPORT SUBSTITUTION

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

In particular, the Company already uses its own technology to manufacture low-viscosity base oils for drilling muds (branded as Gazpromneft Drilling). Yet another example, Gazprom Neft Scientific and Research Centre is developing new ultrahard materials for drill bit blades in collaboration with the Skolkovo Institute of Science and Technology.

The Gazpromneft Catalytic Systems subsidiary is set up as part of 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 excels 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.

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.

As a part of the project, Gazprom Neft’s scientists worked on a novel technology to manufacture a high-performance synthetic matrix, which has already been patented for industrial use.

The catalyst plant project received government support (coverage by RBC TV)

Made in Russia: Gazprom Neft’s catalyst production project (coverage by RBC TV)
MANAGEMENT
SYSTEM
Statement by the Chairman of the Board of Directors

Dear shareholders and investors,

Gazprom Neft is committed to excellence in corporate governance and protection of shareholder rights and interests. For years, the Company has been making consistent efforts to improve its governance system by adopting best Russian and global practices.

In 2018, the Board of Directors of Gazprom Neft took a number of key decisions that will shape the Company’s future. The most important of them was approval of a new long-term development strategy reflecting our ambition to set the pace and standards for oil companies in the realm of safety, efficiency and technology by 2025. To deliver on this vision, we have embarked on a journey to transform our operational and organisational governance systems, upgrade digital capabilities and further enhance the corporate governance culture. The transformation is set to make our business more flexible and resilient in the face of oil market volatility.

Gazprom Neft’s team is now focused on taking the Company to a brand new level, while also making sure to align its efforts with the strategic priorities of Gazprom.

In the reporting year, the Board of Directors assessed development of the key business segments and analysed the Company’s performance in the areas of safety, efficiency and technology.

Special attention was given to technology and innovation, and improving operational efficiency.

The Company’s management seeks to maximise opportunities for communication with shareholders and the investment community. 2018 was the first year Gazprom Neft’s shareholders could use new e-voting solutions that make corporate governance more transparent and accessible, while also facilitating the exercise of shareholders’ rights. As part of traditional meetings with analysts and investors, our team provided detailed insights into Gazprom Neft’s investment programme, free cash flow deployment plans and efforts to increase dividend payments.

Gazprom Neft’s dividend payments for 2017 hit an all-time high of Р 15 per ordinary share. This record was, however, beaten by our performance in the first nine months of 2018, with 35% of consolidated net profit for the period paid in dividends, resulting in a payout of Р 22.05 per share.

I am confident that the efforts made by the Company and its governance bodies will drive further growth of shareholder returns.

Gazprom Neft PJSC
Chairman of the Board of Directors,
Alexey Miller
Chairman of the Board of Directors,
Gazprom Neft PJSC

Overview of corporate governance practices

Gazprom Neft’s corporate governance framework encompasses all the key elements typical of public companies with established governance structures and is fully aligned with the applicable statutory requirements and the Listing Rules of the Moscow Exchange. This helps the Company provide shareholders and investors with sufficient confidence about the consistency of its strategy and decision making.

Gazprom Neft’s corporate governance 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, trust-based relations with its employees, suppliers, customers, and local communities.

Gazprom Neft’sPJSC majority shareholder is PJSC “GAZPROM”, which owns 95.679% of its capital. The remaining ordinary shares are held by minority shareholders represented by both individuals and legal entities.

SHAREHOLDER PROTECTION

Gazprom Neft’s corporate governance practices make sure shareholders have their rights fully protected:

> the Company has no limits on the number of shares that can be purchased or sold, nor does it cap the number of shares that a single shareholder can have;
> a reputable registrar offering a wide range of reliable technologies is responsible for safekeeping and maintaining the shareholder register and acts as the captioning board at General Meetings of Shareholders;
> the Company’s Charter provides shareholders with an extended period to submit their proposals on agenda items of the Annual General Meeting of Shareholders;
> the Company’s by-laws provide for a regular review of shareholder data, which are updated jointly with the registrar;
> the Company uses a tender procedure for contracts exceeding specific thresholds in line with the Company’s internal requirement;
> the Board of Directors reviews matters related to the procurement policy on a regular basis;
> the Board of Directors has an extended authority to rule on material transactions;
> the Company has a by-law that defines inside information and regulates its treatment;
> the Company engages independent appraisers, including in cases where market valuation is not required by law;
> the Company has the Regulation on the General Meeting of Shareholders that sets internal standards as to how meetings are convened and held;
> in the run-up to the Annual General Meeting of Shareholders, the Company has a dedicated hotline and email address for any shareholder communications; the results of a General Meeting of Shareholders are announced during the meeting;
> shareholders are notified about a General Meeting at least 30 days in advance; materials for General Meetings of Shareholders are made available on the Company’s website;
> the Company’s by-laws provide shareholders with the right to ask questions to governance and control bodies during the General Meeting, and there is also an established procedure for answers to the same;
> the Company’s IFRS and RAS financials are audited by a renowned auditor selected through a tender procedure;
> the Company has the Regulation on Dividend Policy that outlines its dividend policy, criteria for dividend calculation, and procedure, dates and forms of payment;
> the Company has established practices for working with minority shareholders; Gazprom Neft has meetings with investors and shareholders, holds Investor Days, and takes part in all major investment and broker conferences on a regular basis. Site visits are often held at the Company’s upstream and downstream facilities to keep investors and shareholders updated on the latest developments;
> Online Shareholder Account is available on the registrar’s website to provide those listed in the register with access to the Company’s news, information about dividends and taxes, payment document numbers, reasons for payment returns, etc.; shareholders can vote using two online voting solutions: Online Shareholder Account and the e-voting system offered by the National Settlement Depository.
GOVERNANCE AND CONTROL BODIES
Gazprom Neft’s corporate governance framework is designed to ensure the highest level of internal and external controls. To this end:

- the Company has approved the Regulation on the Board of Directors;
- the Company has a balanced Board of Directors independent from the management, with two independent directors on the Board;
- all directors have a balanced set of skills and expertise required for their roles;
- an induction programme for new directors is in place;
- members of Board committees have opportunities for further professional training;
- the Board of Directors meets on a regular basis and has a sufficient number of meetings as per the approved work plan;
- the procedure applied in the run-up to the Board meetings makes sure all directors are duly prepared and ready;
- when votes on agenda items are counted, written opinions of directors absent from the meeting are also included;
- in accordance with its by-laws, the Company may engage external advisors to assist Board committees;
- minutes of Board meetings describe the vote cast by each member, consistently providing information about the dissenting opinions (if any);
- the Regulation on the Board of Directors sets out a number of matters (in excess of those required by law) which are resolved by a qualified majority vote;
- most of the matters that according to the Corporate Governance Code are reserved to meetings held in person are actually reviewed by the Board’s in-person meetings;
- the Board of Directors is charged with exercising oversight over material transactions of the Company’s material controlled subsidiaries;
- Gazprom Neft maintains liability insurance for its directors;
- the Company has a procedure to resolve conflicts of interest between directors and executive bodies;
- the Board of Directors has the Audit Committee and the Human Resources and Compensation Committee governed by respective Regulations;
- the Board of Directors has a self-assessment practice in place;
- the Company has the Management Board, a collegial executive body governed by a relevant Regulation;
- the Board of Directors approved by-laws on remuneration and incentivisation of members of the Company’s executive bodies;
- there is a talent pool to provide continuity in the roles of the CEO, their deputies, heads of directorates, departments, divisions, and units;
- the Board of Directors approved by-laws setting forth the key principles, components, and procedures of internal controls and risk management; Gazprom Neft has a dedicated structural unit responsible for the key risk management tasks;
- the Board of Directors reviews the efficiency of internal controls and risk management on an annual basis;
- the Company has the Internal Audit Department, a structural unit responsible for internal reviews. It is part of the Internal Audit and Risk Management Directorate and is governed by a respective Regulation;
- responsibilities of the Internal Audit Department are aligned with best practices in corporate governance;
- the internal audit function reports to the Board of Directors;
- internal guidelines and methodology required for proper risk management are in place;
- responsibilities of the Secretary of the Board of Directors are aligned with those recommended by the Corporate Governance Code for corporate secretaries.

DISCLOSURE OF INFORMATION
The Company strives to ensure full transparency for all stakeholders. The Board of Directors approved the Information Policy Regulation based on recommendations of the Corporate Governance Code. The Company’s financial and non-financial disclosures cover the following matters:
- shareholder capital structure;
- detailed information on directors and members of the Management Board;
- membership of Board committees;
- remuneration of directors and members of the Management Board;
- key types of financial statements under the IFRS and RAS (disclosed together with auditor opinions);
- details on interested-party transactions;
- other matters subject to disclosure under the Russian law.

Gazprom Neft has an up-to-date corporate website with the latest data on the Company’s developments and performance. This annual report is aligned with recommendations of the Corporate Governance Code. The Company’s reports from previous years were multiple award winners both in Russia and globally.

The Company has dedicated units for shareholder and investor relations (please see the website for contacts).

SUSTAINABILITY AND SOCIAL RESPONSIBILITY
Gazprom Neft is a socially responsible company that operates in full compliance with applicable laws and business ethics standards. Initiatives to enhance corporate social responsibility (CSR) and sustainability include:
- approval and disclosure of internal documents focusing on CSR;
- approval and disclosure of the Corporate Code of Conduct;
- approval and disclosure of the Anti-Fraud and Anti-Corruption Policy;
- corporate social projects for employees and local communities, charitable and sponsorship initiatives;
- certification of the Group’s operations for compliance with ISO 19011 and ISO 14001 (quality and environmental management standards);
- formalisation of conflict-of-interest standards in the Company’s by-laws;
- regular drafting, publishing on the corporate website and public assurance of sustainability reports. The 2017 Sustainability Report was SRI-based.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE IN 2018
Compliance with the Corporate Governance Code

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The Company is fully compliant with more than 74% of the Code’s principles and recommendations.

Footnotes:

1. Based on the reported compliance with the principles and recommendations of the Corporate Governance Code as prescribed by the Bank of Russia in its Information Letter No. 86 of 30 December 2016.

2. Clause 2.3 of the report on compliance with the Corporate Governance Code recommended by the Bank of Russia is not applicable to Gazprom Neft.
The corporate governance structure of the Gazprom Neft Group’s subsidiaries is aligned with that of Gazprom Neft PJSC. In the majority of subsidiaries there are retaining a three-tiered structure of governance bodies: the meeting of shareholders (members), the Board of Directors and the sole executive body. Regardless of the structure of its authorised capital, Gazprom Neft PJSC is the parent company with respect to the Gazprom Neft Group’s subsidiaries, as duly recorded in their respective charters. 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 Gazprom Neft PJSC governance bodies.

The Company has developed and approved procedures that allow for coordinating and monitoring the subsidiaries’ operations under the guidance of the Corporate Centre as part of the Company’s Development Strategy. Participation of any entity of the Gazprom Neft Group in another entity, whether commercial or non-commercial, is only approved via collective decision-making by a group of duly authorised persons. Matters pertaining to subsidiaries’ strategic development are submitted for preliminary approval to Gazprom Neft’s Management Board.

The General Meeting of Shareholders/Members and the Board of Directors of a Gazprom Neft subsidiary have an established procedure for making decisions. The Company’s representatives participating in the governance bodies of the Group’s entities exercise a prudent and professional approach to their duties to maximise the effectiveness of decision-making.

The joint ventures in which the Gazprom Neft Group’s entities hold a stake have a formalised and approved governance structure. To efficiently manage these ventures, the Company established the role of an asset supervisor who is responsible for coordinating the management efforts.

Nominees to the Board of Directors and Internal Audit Commission of a subsidiary are subject to annual approval by Gazprom Neft’s Corporate Centre. A subsidiary’s Board of Directors is formed based on the established functional reporting lines. Executive bodies of the Gazprom Neft Group’s entities (including the CEO) are appointed to their position subject to approval by the Corporate Centre, irrespective of the level of corporate ownership and authorised capital structure of a subsidiary.

The Corporate Centre of the Gazprom Neft Group is Gazprom Neft PJSC, which ensures effective control over all processes. As of 31 December 2018, Gazprom Neft comprised 133 Russian and foreign legal entities.

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Nominees to the Board of Directors and Internal Audit Commission of a subsidiary are subject to annual approval by Gazprom Neft’s Corporate Centre. A subsidiary’s Board of Directors is formed based on the established functional reporting lines. Executive bodies of the Gazprom Neft Group’s entities (including the CEO) are appointed to their position subject to approval by the Corporate Centre, irrespective of the level of corporate ownership and authorised capital structure of a subsidiary.

The Corporate Centre of the Gazprom Neft Group is Gazprom Neft PJSC, which ensures effective control over all processes. As of 31 December 2018, Gazprom Neft comprised 133 Russian and foreign legal entities.

Regardless of the structure of its authorised capital, Gazprom Neft PJSC is the parent company with respect to the Gazprom Neft Group’s subsidiaries, as duly recorded in their respective charters. 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 Gazprom Neft PJSC governance bodies.

The Company has developed and approved procedures that allow for coordinating and monitoring the subsidiaries’ operations under the guidance of the Corporate Centre as part of the Company’s Development Strategy. Participation of any entity of the Gazprom Neft Group in another entity, whether commercial or non-commercial, is only approved via collective decision-making by a group of duly authorised persons. Matters pertaining to subsidiaries’ strategic development are submitted for preliminary approval to Gazprom Neft’s Management Board.

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For the list of material companies within Gazprom Neft Group, see appendix 4 on p. 315.
In September 2018, Gazprom Neft closed the sale of 49% in Gazpromneft-Vostok to Mubadala Petroleum and the Russian Direct Investment Fund. Gazpromneft-Vostok holds subsoil licences for Shinginsky, Zapadno-Luginetsky, Yuzhno-Pudinsky, Arkhangelsky, Urmansky, and Krapivinsky licence blocks. In 2017, the company obtained subsoil licence for the exploration of the Parabelsky block. Following the deal, Gazprom Neft retained 51% in the joint venture, while Mubadala Petroleum and RDIF got 44% and 5%, respectively. Under the deal terms, Gazprom Neft Group will be able to continue to fully consolidate Gazpromneft-Vostok in its IFRS statements. The joint venture that emerged from the Gazpromneft-Vostok transaction was the first investment project of Mubadala Petroleum in the Russian oil and gas sector.

In October 2018, Gazprom Neft acquired a 100% stake in the authorised capital of Trans-Terminals, which will significantly expand Gazprom Neft’s platform operation and crude oil production. This acquisition will be the launch pad for a separate production cluster for managing all of the Company’s offshore assets and services for Gazprom Neft Group.

In December 2018, the Garanti Service joint venture was established by Gazprom Neft and Sberbank Leasing, each holding a 50% stake. It is meant to maximise financial access to state-of-the-art drilling equipment and services for Gazprom Neft Group.

In December 2018, Gazpromneft-NND was reorganised via a merger with the Zapolyarnoye subsidiary. The aim of the merger was to streamline the corporate structure of Gazprom Neft’s subsidiaries, making them easier to manage. To that end, operator relations between the reorganised subsidiaries were abolished.

In late 2018 Gazprom Neft and Rospol acquired 100% of ASB GEO, which holds a geological exploration licence for the Karabashsky 10 block in the Khanty-Mansi Autonomous Area. The company will be managed on a parity basis.

Karabashsky 10 is located in the Kendinsky District, in the southwest of the Khanty-Mansi Autonomous Area – Yugra. It is now at an early exploration stage. The block adjoins the Karabashsky zone licence blocks that are already controlled by Eurolot-Yugra, another joint venture of Gazprom Neft and Rospol.

The following companies were liquidated as part of the Group’s corporate structure optimisation:
- Gazprom Neft Adria d.o.o.;
- Tzar Petrol Investment Limited;
- LLC West-Siberian Investment Consortium.

Reorganisation objectives
- make petroleum product sales more economically viable;
- expand business;
- increase the quality of managerial decisions;
- facilitate innovation and business automation;
- reduce administrative costs;
- establish centralised control over regional oil depots via a dedicated company of Gazprom Neft Group.

2018 saw the following initiatives designed to reorganise the Group’s sales assets:
- LLC Gazpromneft-ZS (Retail) was reorganised via spin-off of LLC Gazpromneft-ZS (AZS), which was then merged into LLC Gazpromneft-Centre;
- LLC Gazpromneft-ZS (Retail) was reorganised via spin-off of LLC Gazpromneft-ZS (NB), which was then merged into JSC Gazpromneft-Terminal;
- LLC Gazpromneft-ZS (Retail) was reorganised via merger into JSC Gazpromneft-Novosibirsk;
- LLC Gazpromneft-Novosibirsk (AZS) was reorganised via merger into LLC Gazpromneft-Centre;
- JSC Gazpromneft-Novosibirsk was reorganised via spin-off of LLC Gazpromneft-Novosibirsk (NB), which was then merged into JSC Gazpromneft-Terminal;
- LLC Gazpromneft-Centre was reorganised via spin-off of LLC Gazpromneft-Centre (NB) and its merger into JSC Gazpromneft-Terminal;
- PJSC Gazpromneft-Tyumen was liquidated. After liquidation, PJSC Gazpromneft-Tyumen’s 100% stake in the authorised capital of LLC Gazpromneft-Tyumen was distributed to Gazprom Neft PJSC.

On 6 July 2018 Gazprom Neft established LLC Bazhen Technology Centre, whose key purpose will be to develop commercially viable domestic technologies to develop the Bazhenov Formation. The new legal entity is located in the Khanty-Mansi Autonomous Area, and its asset portfolio will consist of licence blocks previously held on the balance sheet of Gazpromneft-Khantos and having good prospects in terms of the development of Bazhenov Formation reserves. The Bazhenov cluster will comprise the Paljanovskaya area within the Krasnoleininskoye field, five licence blocks within the Nyansky cluster’s group of fields, and three blocks in the Salymsk field.

The search for ways to develop hard-to-recover reserves in Russia represents a strategic priority for Gazprom Neft. The project to create a range of domestic technologies for developing the Bazhenov Formation was initiated by the Company, having been awarded the status of a national project in May 2017. It brings together oil companies, R&D centres, service providers and industrial equipment manufacturers that are interested in getting involved.

In August 2018, Gazpromneft Bitumen Materials acquired 100% of Bitumen Terminals, which, in turn, holds a 100% stake in the authorised capital of Trans-Real, the owner of the Salsk bitumen terminal. The Salsk bitumen terminal is a modern automated bitumen terminal in the Rostov Region. The terminal has facilities for receiving, storing, compounding and loading bitumen, as well as for manufacturing polymer-bitumen binders. The acquisition of this asset will boost the Gazprom Bitumen Materials share in the market of the Southern Federal District with annual transshipment volumes of up to 140 kpa.

In September 2018, Gazpromneft-Priarahomsnefteorgsbyt was reorganised via a merger into LLC Gazpromneft-Novosibirsk (NB), which was then merged into JSC Gazpromneft-Terminal;
Commitment to Better Corporate Governance

The Company closely monitors corporate laws and best practices both in Russia and globally in an attempt to improve its corporate governance framework.

In 2018, the steps taken to enhance corporate governance were as follows:

- 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, as well as the Company’s policy to align applicable corporate procedures with the thresholds set for transactions subject to approval by the Board of Directors;
- 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. For example, the new version of the Regulation on the Board of Directors:
  - provides a list of matters reserved exclusively to the Board meetings held in person in line with the recommendations of the Corporate Governance Code;
  - allows the directors staying away from the meeting venue to participate in deliberations and vote remotely via conference calls and video conferencing;
  - describes cases that can be qualified as a conflict of interest for a director and sets out a procedure for notifying the Company about them;
- The Board of Directors approved amendments to the Company’s Transaction Handling Procedure and Procedure for Interaction with Investee Entities. These amendments are designed to increase applicable transaction thresholds with a view to improving efficiency of the Board of Directors by transferring the authority to oversee day-to-day operations to the CEO;
- The resolution of the Board of Directors dated 20 December 2018 approved the Regulation on the Secretary of the Board of Directors, with the Secretary’s responsibilities fully aligned with the recommendations of the Corporate Governance Code;
- 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’s shareholders have an opportunity to use two e-voting solutions provided by the National Settlement Depository (NSD) and DRAGA, the Company’s registrar.

Corporate Governance Framework

In 2018, the Company began to automate its corporate procedures to streamline the setup of governance bodies, information disclosure processes, transaction approvals and control over subsidiaries and joint ventures.

For example, an automated corporate governance solution is in the works to ensure centralised management of business processes in both Gazprom Neft and its subsidiaries through the tightening of control over the Group of companies and enforcement of compliance with the corporate procedures. The solution aims to improve corporate governance efficiency by enabling workflow automation, quick access to information, and stronger corporate controls over the subsidiary operations.

Commitment to Better Corporate Governance (cont.)

“2018 was the first year the Company’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

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.

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.

Corporate Governance Framework

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 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.

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.
Gazprom Neft’s governance and control bodies

AUDIT COMMITTEE
The Audit Committee exercises oversight over 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 educating a systemic and consistent approach to assessing and enhancing the efficiency of corporate governance, risk management and internal control processes.

MANAGEMENT BOARD

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.

CEO

EXTERNAL AUDITOR
External auditor is a professional audit organisation approved by the General Meeting of Shareholders based on recommendations from 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.

AOCT COMMITTEE
The Audit Commission is an elected body that exercises control over the financial and business operations of the Company.

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
Appointed by the Board of Directors, the Secretary ensures effective communication with shareholders, makes necessary arrangements to protect their rights and interests, and provides operating support to boost the efficiency of the Board of Directors.

BOARD OF DIRECTORS
The Board of Directors is responsible for the Company’s strategic management, determining priority development areas, defining key principles and approaches of risk management and internal controls, exercising control over the Company’s executive bodies, and performing other functions.

The scope of authority of the Board of Directors is set out in Gazprom Neft’s Charter and is clearly differentiated from the remit of the Company’s executive bodies responsible for managing its ongoing operations.

The election of executive bodies, termination of their powers and control over the incentive system are all reserved to the Board of Directors. One of the key responsibilities of the Board of Directors is to set up strong executive bodies and exercise oversight over their performance. On top of that, the Board regularly reviews reports on the implementation of the Company’s strategy and business plans.

The Board of Directors approves the Internal Control and Risk Management Policy and ensures implementation of the risk management and internal control initiatives. Also, the Board manages key risks related to the Company’s strategic objectives.

General 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.

General Meetings of Shareholders of Gazprom Neft held in 2018

Annual General Meeting of Shareholders
09 June 2018

- The Company’s annual report and accounting statements for 2017 were approved.
- Gazprom Neft’s shareholders supported the recommendation of the Board of Directors to pay dividends in the total amount of ₽71.12 bn (₽ 15 per ordinary share, 28% of the Company’s IFRS consolidated net profit for 2017).
- PricewaterhouseCoopers Audit (PwC) was approved as the auditor of Gazprom Neft for 2018.
- The shareholders also discussed several other items on the agenda of the Annual General Meeting:
  - new members of the Board of Directors and the Audit Commission were elected;
  - remuneration for the Board of Directors and the Audit Commission was approved.

Extraordinary General Meeting of Shareholders
16 December 2018

- The Meeting resolved to:
  - pay interim dividends for nine months of 2018 in the total amount of ₽ 104.55 bn (₽ 22.05 per ordinary share);
  - amend the Charter and approve new versions of the following Company’s by-laws: 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;
  - approve Gazprom Neft’s decision to join the Russian National Committee of the World Energy Council.

Board of Directors

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The Board of Directors approves the Internal Control and Risk Management Policy and ensures implementation of the risk management and internal control initiatives. Also, the Board manages key risks related to the Company’s strategic objectives.
The key responsibilities of the Chairman of the Board of Directors are set forth in the Charter, the Regulation on the Board of Directors and the Corporate Governance Code. Those include:

- providing organisational support to the Board of Directors;
- promoting an open discussion of the agenda items and ensuring thoughtful consideration of all opinions expressed by the directors;
- identifying key matters to be reviewed by the Board of Directors and choosing the right meeting format for the discussion;
- representing the Board of Directors in relations with shareholders, management and other stakeholders;
- preparing proposals for the distribution of responsibilities in the Board of Directors and its committees.

The scope of authority of the Board of Directors, its operating arrangements and the existing corporate procedures make it possible to adopt a substantial part of resolutions by a simple majority vote. That said, the Chairman must take into account the opinion of each director and seek to ensure a consensus on key items.

In 2018, the Board of Directors was chaired by Alexey Miller who did not sit on any of the Board’s committees. Even though at that time Alexey Miller served as a director in some other companies and fulfilled the responsibilities of the Management Committee Chairman at Gazprom, the Company believes that these roles did not prevent him from effectively chairing the Board of Directors of Gazprom Neft.

**Key competencies of the Board of Directors**

<table>
<thead>
<tr>
<th>Director</th>
<th>Years on the Board</th>
<th>Strategy</th>
<th>Finance and audit</th>
<th>Oil and gas</th>
<th>Law and corporate governance</th>
<th>Risk management</th>
<th>Public and government relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller</td>
<td>13 years (since October 2005)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
</tr>
<tr>
<td>Andrey Kruglov</td>
<td>13 years (since October 2005)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
</tr>
<tr>
<td>Kirill Selivanov</td>
<td>13 years (since October 2005)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
</tr>
<tr>
<td>Valery Golubev</td>
<td>11 years (since June 2007)</td>
<td>✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
</tr>
<tr>
<td>Alexander Dyukov</td>
<td>11 years (since November 2007)</td>
<td>✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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</tr>
<tr>
<td>Vladimir Alisov</td>
<td>9 years (since June 2009)</td>
<td></td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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</tr>
<tr>
<td>Vsevolod Khrapovnov</td>
<td>7 years (since June 2011)</td>
<td>✔ ✔</td>
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</tr>
<tr>
<td>Elena Mikhailova</td>
<td>6 years (since June 2012)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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<tr>
<td>Valery Serydykov</td>
<td>6 years (since December 2012)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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<td>✔ ✔ ✔</td>
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<tr>
<td>Mikhail Sareda</td>
<td>5 years (since December 2013)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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<tr>
<td>Sergey Fursenko</td>
<td>5 years (since February 2013)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
</tr>
<tr>
<td>Igor Fedorov</td>
<td>6 months (since June 2018)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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</tr>
<tr>
<td>Andrey Dmitriev</td>
<td>6 months (since June 2018)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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<tr>
<td>Marat Garaev</td>
<td>6 years (from 2014 to 8 June 2018)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
</tr>
<tr>
<td>Nikolai Dubik</td>
<td>5 years (from 2008 to 8 June 2018)</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
<td>✔ ✔ ✔</td>
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</tbody>
</table>

**Key competencies**

- Strategy
- Finance and audit
- Oil and gas
- Law and corporate governance
- Risk management
- Public and government relations

**Balance of the Board of Directors by age**

- 12 and below (40-)
- 40-49
- 50-59
- 60 and above

**Board of Directors composition**

- non-executive non-independent

- Alexey Miller
- Valery Golubev
- Andrey Kruglov
- Kirill Selivanov
- Igor Fedorov
- Elena Mikhailova
- Alexander Dyukov
- Alexey Miller
- Valery Serydykov
- Mikhail Sareda
- Sergey Fursenko
- Elena Mikhailova
- Valery Golubev
- Andrey Dmitriev

Gazprom Neft has put in place a transparent procedure for electing directors that includes:

- giving shareholders a two-month period to propose nominees to the Board of Directors (applicable law only provides for a one-month nomination period);
- disclosing information about the current composition of the Board and its nominees in due time;
- using cumulative voting for electing the Board of Directors and providing comprehensive explanations about the associated voting procedures to the shareholders;
- providing quorum details and the number of votes cast for each option when announcing the voting results;
- publishing resolutions adopted by the General Meeting of Shareholders on Gazprom Neft’s corporate website.

**COMPOSITION OF THE BOARD OF DIRECTORS**

The Board of Directors must be made up in such a way so as to enable directors to discharge their duties in the most efficient manner possible. The Board of Directors is comprised of 13 elected directors. With 95.68% of the Company’s ordinary shares held by PJSC “GAZPROM”, the overwhelming majority of Gazprom Neft’s directors are elected upon the recommendation of PJSC “GAZPROM”, the Company’s controlling shareholder. 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 skills and experience required for their roles. The directors possess skills in strategic management, corporate governance, corporate finance, risk management, accounting, and other areas specific to the Company’s operations.

The current composition of the Board of Directors ensures sufficient independence from the Company’s management and enables effective control over the performance of the Management Board.
All directors are highly skilled professionals with an extensive board experience. They perform their duties in close collaboration with the Company’s management team, business units, registrar and auditors. The number of directors is aligned with the Company’s current goals, objectives, and industry practices, and ensures the required balance of competencies in the Board of Directors.

Simultaneous participation of directors in other companies’ boards of directors did not affect their performance in respect of Gazprom Neft’s companies’ boards of directors. They perform their duties in close collaboration with an extensive board experience. They

Changes in the Board composition in 2018

Composition as at 31 December 2018

Alexander Dyukov
Chairman of the Board of Directors

Alexey Miller
Independent Director

Sergey Fursenko
Independent Director

Alexander Dyukov

Marat Garaev
Independent Director

Andrey Dmitriev
Independent Director

Elena Mikhailova
Independent Director

Vsevolod Cherepanov
Independent Director

Vladimir Alisov
Independent Director

Kirill Seleznev
Independent Director

Nikolai Dubik
Independent Director

Valery Golubev
Independent Director

Alexey Miller
Independent Director

Valery Gubarev
Independent Director

Andrey Kruglov
Independent Director

Sergey Fursenko
Independent Director

INDEPENDENT DIRECTORS

Since 2001 – Chairman of Gazprom’s Management Committee

Since 2013 – Chairman of the Board of Directors at SOGAZ

Since 2012 – member of the Bureau at the All-Russian Association of Employers (Russian Union of Industrialists and Entrepreneurs)

Since 2013 – member of the Board of Trustees at Moscow Church Construction Foundation

Since 2017 – member of the Board of Trustees of Doctors, Innovations and Science for Children Foundation

Since 2018 – member of the Presidential Council for the Development of Physical Culture and Sport

Since 2018 – member of the Supervisory Board of Gubkin Russian State University of Oil and Gas

Since 2018 – member of the Board of Directors at Gazfond Private Pension Fund

Since 2016 – President, Chairman of the Board of Directors, Chairman of the Presiding Committee at the International Business Congress e.V. (IBC)

Since 2015 – member of the Board of Trustees at the Russian Federal Public Academy of Education

Since 2017 – member of the Board of Trustees at the Higher School of Economics (National Research University)

Since 2017 – member of the Board of Trustees of Doctors, Innovations and Science for Children Foundation (pediatric hematology, oncology and immunology research)

Since 2018 – member of the Board of Trustees at the Fund for the Conservation and Development of the Solovetsky Archipelago

Biographical details

Interests and activities

Since 2018 – member of the Board of Trustees at the Fund for the Conservation and Development of the Solovetsky Archipelago

Since 2018 – member of the Board of Trustees at the Higher School of Economics (National Research University)

Since 2017 – member of the Board of Trustees of Doctors, Innovations and Science for Children Foundation (pediatric hematology, oncology and immunology research)

Since 2018 – member of the Board of Trustees at the Fund for the Conservation and Development of the Solovetsky Archipelago
Valery Golubev
Member of the Audit Committee
Shareholding: None (as at 31 December 2018)

Biographical details
- Born in 1952
- Graduated from Ulyanov-Sverdlov Leningrad Polytechnical Institute and the Russian Presidential Academy of National Economy and Public Administration
- 2006 – February 2019 – Deputy Chairman of Gazprom’s Management Committee
- Holds a PhD in Economics

Positions held in other organisations
- Since 2003 – Chairman of the Board of Directors, member of the Supervisory Board at Gazprom
- Since 2006 – First Vice-President, member of the Supervisory Board at the Russian Gas Society
- Since 2006 – member of the Supervisory Board at Gazpromvazobshchinnost
- Since 2007 – member of the Board of the International Consortium for Transmission System Management and Development
- Since 2007 – member of the Board of Directors at Gazprom
- Since 2009 – member of the Board of Directors at Gazprom Export
- Since 2009 – member of the Board of Directors at Gazprom Neft Finance B.V.
- Since 2010 – member of the Supervisory Board at Gazprom Neft Capital Finance B.V.
- Since 2010 – member of the Board of Trustees at the International Business Congress e.V.
- Since 2010 – member of the Board of Directors at Gazprom Neft Finance B.V.
- Since 2010 – Chairman of the Board of Trustees at Gazprom Neft Foundation
- Since 2011 – member of the Board of Trustees of the Russian Orthodox Church
- Since 2011 – member of the Board of Trustees at the International Foundation for the Unity of Orthodox Christian Nations
- Since 2012 – member of the Board of Directors at Gazprom Neft
- Since 2013 – Chairman of the Board of Directors at Belgazprombank
- Since 2013 – member of the Board of Directors at Gazprombank
- Since 2014 – member of the Board of Directors at Gazprombank
- Since 2015 – member of the Board of Directors at Gazprombank
- Since 2015 – member of the Board of Directors at Gazprom bank
- Since 2016 – member of the Board of Directors at Gazprom Neft Foundation
- Since 2016 – member of the Board of Trustees at the Russian Geographical Society
- Since 2016 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2017 – member of the Board of Directors at Gazprom Neft
- Since 2018 – Chairman of the Board of Directors at Gazprom Neft

Andrey Kruglov
Member of the Human Resources and Compensation Committee
Shareholding: None (as at 31 December 2018)

Biographical details
- Born in 1967
- Graduated from St Petersburg Technological Institute of Refrigeration
- 2000 – 2005 – Head of Finance and Economics Department at Gazprom
- 2005 – March 2011 – Deputy Chairman of Gazprom’s Management Committee
- Holds a post-doctoral degree in Economics
- Since 2003 – member of the Board of Directors at Belgazprombank
- Since 2003 – member of the Board of Directors at Gazprombank
- Since 2004 – member of the Board of Directors at Vostokgazprom
- Since 2005 – member of the Board of Directors at Gazprom Export
- Since 2006 – member of the Board of Directors at Gazprom Neft Finance B.V.
- Since 2010 – member of the Supervisory Board at Gazprom Neft Finance B.V.
- Since 2011 – member of the Board of Trustees at the charity foundation for restoring the New Jerusalem Stauropegic Monastery of the Russian Orthodox Church
- Since 2015 – member of the Board of Trustees at the International Business Congress e.V. (IBC)
- Since 2018 – member of the Board of Directors at Gazprom Neft Private Pension Fund

Positions held in other organisations
- Since 2003 – Chairman of the Board of Directors at Gazprom
- Since 2006 – First Vice-President, member of the Supervisory Board at Gazprom
- Since 2007 – member of the Board of the International Consortium for Transmission System Management and Development
- Since 2007 – member of the Board of Directors at Gazprom
- Since 2009 – member of the Board of Directors at Gazprom Export
- Since 2009 – member of the Board of Directors at Gazprom Neft Finance B.V.
- Since 2010 – member of the Supervisory Board at Gazprom Neft Finance B.V.
- Since 2012 – member of the Board of Trustees at the charity foundation for restoring the New Jerusalem Stauropegic Monastery of the Russian Orthodox Church
- Since 2016 – member of the Board of Trustees at the International Foundation for the Unity of Orthodox Christian Nations
- Since 2016 – member of the Presidium Committee at the International Business Congress e.V. (IBC)
- Since 2018 – member of the Board of Directors at Gazprom Neft

Alexander Dyukov
Shareholding: None (as at 31 December 2018)

Biographical details
- Born in 1976
- Graduated from Ulyanov-Sverdlov Leningrad Polytechnical Institute and the Russian Presidential Academy of National Economy and Public Administration
- 2002 – April 2019 – Head of marketing and gas and liquids processing at Gazprom
- Since 2013 – member of Gazprom’s Management Committee
- 2006 – April 2017 – Director General at Gazprom Neft
- Since 2017 – CEO at RusKhimAlliance
- Holds a PhD in Economics
- Since 2003 – Chairman of the Board of Directors, Chairman of the Board of Directors at Gazprom
- Since 2007 – member of the Board of Directors, Chairman of the Board of Directors at Gazprom Neft
- Since 2005 – member of the Board of Directors at Gazprom Neft
- Since 2007 – member of the Supervisory Board at Gazprom Neft
- Since 2007 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2009 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2010 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2013 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2016 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2017 – President of the Football Union of Russia
- Since 2019 – Chairman of the Board of Directors at Gazprom Neft
- Since 2006 – First Vice-President, member of the Supervisory Board at Gazprom
- Since 2007 – member of the Board of Directors at Gazprom
- Since 2009 – member of the Board of Directors at Gazprom Neft
- Since 2010 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2011 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2011 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2012 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2013 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2015 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2016 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2017 – President of the Football Union of Russia
- Since 2019 – Chairman of the Board of Directors at Gazprom Neft

Kirill Seleznev
Shareholding: None (as at 31 December 2018)

Biographical details
- Born in 1974
- Graduated from Ulyanov-Sverdlov Leningrad Polytechnical Institute and the Russian Presidential Academy of National Economy and Public Administration
- 2002 – April 2019 – Head of marketing and gas and liquids processing at Gazprom
- Since 2013 – member of Gazprom’s Management Committee
- 2006 – April 2017 – Director General at Gazprom Neft
- Since 2017 – CEO at RusKhimAlliance
- Holds a PhD in Economics
- Since 2003 – Chairman of the Board of Directors, Chairman of the Board of Directors at Gazprom
- Since 2007 – member of the Board of Directors, Chairman of the Board of Directors at Gazprom Neft
- Since 2005 – member of the Board of Directors at Gazprom Neft
- Since 2007 – member of the Supervisory Board at Gazprom Neft
- Since 2007 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2009 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2010 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2013 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2016 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2017 – President of the Football Union of Russia
- Since 2019 – Chairman of the Board of Directors at Gazprom Neft
- Since 2006 – First Vice-President, member of the Supervisory Board at Gazprom
- Since 2007 – member of the Board of Directors at Gazprom
- Since 2009 – member of the Board of Directors at Gazprom Neft
- Since 2010 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2011 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2012 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2013 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2015 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2016 – member of the Board of Directors at Gazprom Neft Capital Finance B.V.
- Since 2017 – President of the Football Union of Russia
- Since 2019 – Chairman of the Board of Directors at Gazprom Neft
Mikhail Sereda
Chairman of the Audit Committee
Shareholding: None
Biographical details
> Born in 1970
> Graduated from St. Petersburg State University of Economics and Finance
> Since 2002 – member of Gazprom’s Board of Directors
> Since 2005 – Deputy Chairman of the Management Committee – Head of the Management Committee Administration at Gazprom

Elena Mikhailova
Member of the Audit Committee
Shareholding: None
Biographical details
> Born in 1977
> Graduated from Moscow State Industrial University with a degree in Law; holds an MBA from the Russian Presidential Academy of National Economy and Public Administration
> Since 2011 – head of property management and corporate relations at Gazprom
> Since 2013 – Deputy Director General for Corporate Relations and Asset Management at Medgazpromgaz (on a part-time basis)
> Since 2012 – member of Gazprom’s Management Committee

Vladimir Alisov
Shareholding: None
Biographical details
> Born in 1960
> Graduated with a law degree from Zhdanov Leningrad State University
> In 2010, by Presidential decree, awarded the Honoured Lawyer of the Russian Federation title
> Since 2008 – First Deputy Head of Department at Gazprom, in charge of legal affairs
> Member of the Association of Lawyers of Russia, member of the Expert Council on Corporate Governance under the Federal Financial Markets Service of Russia

Yevgevdi Cherepanov
Chairman of the Human Resources and Compensation Committee
Shareholding: None
Biographical details
> Born in 1966
> Graduated from Lomonosov Moscow State University
> Since 2010 – February 2017 – member of the Management Committee, until March 2019 – deputy head at Gazprom
> Holds a PhD in Geology and Mineralogy

Positions held in other organisations
> Since 2002 – member of the Board of Directors, Chairman of the Board of Directors at Gazprom O.J.S.K. Limited
> Since 2002 – member of the Board of Directors, Deputy Chairman of the Board of Directors at Gazprombank
> Since 2012 – member of the Board of Directors at Vostokgazprom
> Since 2013 – member and Chairman of the Board of Directors at Gazprom Centrenergogaz
> Since 2015 – Chairman of the Board of Directors at Tomskgazprom
> Since 2016 – member and Chairman of the Board of Directors at Gazprom turbinenbau (branch)
> Since 2017 – member of the Board of Directors at Gazprom Space Systems
> Since 2012 – Chairman of Management Board at Sobrina Housing Corporation
> Since 2015 – President of the Administrative Board of Gazprom Schwarz AG
> Since 2016 – Managing Director at Gazprom Germania GmbH
> Since 2016 – member and Chairman of the Supervisory Board at Gazprom Austria GmbH
> Member of the Executive Committee of the International Business Congress e.V. (IBC)
> Since 2017 – member of the Advisory Board of WOGA Transport- Betriebsgungs GmbH & Co KG
> Since 2017 – member and Chairman of the Board of Directors at Gazprom Transservis
> Since 2018 – member of the Board of Directors at Parvangar
> Since 2012 – member of the Board of Directors at Mavengra
> Since 2012 – member of the Board of Directors at Sevenhellesgaz
> Since 2012 – member of the Board of Directors at Lider
> Since 2012 – member of the Board of Directors at Gazprom-Gas-Engine Fuel
> Since 2013 – member of the Council at Latvijas Gāze
> Since 2015 – member of the Board of Directors at Gazprom EP
> Since 2016 – member of the Board of Directors at Gazpromneft-Sakhgaz
> Since 2017 – member of the Board of Directors at Lider
> Since 2012 – member of the Board of Directors at DRAGA
> Since 2018 – member of the Supervisory Board at JV Bezniiapartment
> Since 2007 – member of the Board of Directors of Dagegazprom
> Since 2010 – member of the Board of Directors of Karnchagazprom
> Since 2016 – member of the Board of Directors of DRAGA
> Since 2018 – member of the Supervisory Board at JV Bezniiapartment
> Since 2010 – Chairman of the Board of Directors, member of the Board of Directors at Achimgaz
> Since 2010 – member of the Supervisory Board at Winterhal AG
> Since 2010 – member of the Board of Directors at Severhellesgazprom
> Since 2010 – member of the Supervisory Board at Gazprom EP Finanz B.V.
> Since 2012 – member of the Board of Directors at Sakhalin Energy Investment Company Ltd.
> Since 2012 – Chairman of the Board of Directors of Tsergazprom
> Since 2013 – member of the Management Board of the New Gas Industry Technology Association of Equipment Manufacturers
> Since 2016 – member of the Board of Directors at Gazprom Karagaz
> Since 2016 – Chairman of the Board of Directors at Achimgaz
> Since 2017 – Chairman of the Board of Directors at RusGazAlliance
> Since 2013 – member of the Board of Directors, member of the Supervisory Board at Sakhalin Energy Investment Company Ltd.
> Since 2013 – member of the Board of Directors at Sakhalin Energy Investment Company Ltd.
> Since 2012 – member of the Board of Directors at Gazpromneft-Sakhgaz
> Since 2012 – member of the Board of Directors of the New Gas Industry Technology Association of Equipment Manufacturers
> Since 2016 – member of the Board of Directors at Gazprom Karagaz
> Since 2016 – Chairman of the Board of Directors at Achimgaz
> Since 2017 – Chairman of the Board of Directors at RusGazAlliance

None (as at 31 December 2018)
Shareholding
Valery Serdyukov
Independent director
Shareholding (as at 31 December 2018) None

Sergey Fursenko
Member of the Human Resources and Compensation Committee, independent director
Shareholding (as at 31 December 2018) None

Andrey Dmitriev
Shareholding (as at 31 December 2018) None

Igor Fyodorov
Chairman of the Human Resources and Compensation Committee
Shareholding (as at 31 December 2018) None

Biographical details
- Born in 1976
- Graduated from Plekhanov Leningrad Mining Institute
- 1999–2012 – Governor of the Leningrad Region
- Received government and industry awards
- In 2013, by Presidential decree, awarded the Honoured Lawyer of the Russian Federation title
- Holds a PhD in Economics

Positions held in other organisations
- Since 2013 – member and Chairman of the Board of Directors at Gazprom Gas-Engine Fuel
- Since 2012 – member of the Presidential Council for the Development of Physical Culture and Sport
- Since 2013 – member of the Board of Directors at Zenit Football Club
- Since 2017 – member of the Board of Directors of Zenit Basketball Club
- Since 2018 – member of the Executive Committee of The European Club Association (ECA)

Biographical details
- Born in 1954
- Graduated from Leningrad Polytechnic Institute
- Since 2017 to February 2019 – President of Zenit Football Club
- Since March 2019 – Vice President at Gazprombank

Positions held in other organisations
- Since 2012 – member and Chairman of the Board of Directors at Gazprom Gas-Engine Fuel
- Since 2013 – member of the Presidential Council for the Development of Physical Culture and Sport
- Since 2013 – member of the Board of Directors at Zenit Football Club
- Since 2017 – member of the Board of Directors of Zenit Basketball Club
- Since 2018 – member of the Executive Committee of The European Club Association (ECA)

Biographical details
- Born in 1974
- Graduated from Volga State Academy of Water Transport and received an EMBA from Stockholm School of Economics
- Since 2016 – First Deputy Head of Department at Gazprom
- Since 2018 – Managing Director at Gazprom Germania GmbH

Positions held in other organisations
- Since 2017 – member of the Board of Directors at Gazprom Gas-Engine Fuel
- Since 2012 – member and Chairman of the Board of Directors at Gazprom Gas-Engine Fuel
- Since 2013 – member of the Presidential Council for the Development of Physical Culture and Sport
- Since 2013 – member of the Board of Directors at Zenit Football Club
- Since 2017 – member of the Board of Directors of Zenit Basketball Club
- Since 2018 – member of the Executive Committee of The European Club Association (ECA)
Marat Garaev

Born in 1973
Graduated from St. Petersburg State University of Economics and Finance with a degree in Economics
2000–2016 – Deputy Head of the Department for Gas and Liquid Hydrocarbon Marketing and Processing, Head of the Industrial Product Marketing Directorate at Gazprom
2016–2018 – First Deputy Head of the Department for Gas and Liquid Hydrocarbon Marketing and Processing at Gazprom
Since 2018 – CEO at Gazprom Neft

Born in 1977
Graduated from Lomonosov Moscow State University
2017–2018 – First Deputy CEO at Gazprom Export
Honoured Lawyer of the Russian Federation

Secretary of the Board of Directors

The Secretary of the Board of Directors is responsible for
» providing organisational and informational support to the Board of Directors and its committees;
» preparing and running the General Meeting of Shareholders;
» assisting the Chairman of the Board of Directors in organising and planning the activities of the Board of Directors;
» arranging storage of the Board of Directors’ documents; exercising control over the Board of Directors’ resolutions;
» interacting with members of the Board of Directors, advising them on corporate governance matters; providing them with necessary documents and information;
» disclosing information about the Company;
» arranging interaction between the Company and its shareholders;
» other functions in line with the Regulation on the Board of Directors, the Company’s internal documents and requests from the Chairman of the Board of Directors.

The Secretary of the Board of Directors has sufficient skills, experience and qualifications to perform his/her duties and enjoys impeccable professional reputation, while also continuing to upgrade his/her professional skills on an ongoing basis and being a notable figure in the professional community.

In order to ensure the Secretary’s independence, the Secretary is appointed by the Board of Directors based on recommendations from the Chairman. The Secretary of the Board of Directors and the Secretary of the Management Board are two different persons.

The role of the Secretary of the Board of Directors is formalised by the Regulation on the Secretary of the Board of Directors.

Viktoriya Nenadysheva

Secretary of the Board of Directors since 25 September 2018

Biographical details

» Born in 1984
» Graduated from Toulouse University of Social Sciences (France) with a degree in European and International Business Law and Russian Law Academy of the Russian Ministry of Justice with a degree in Law
2011–2012 – head of Legal Division at Moscow Oil and Gas Company
2011–2012 – head of Legal Affairs at Gazpromneft
Since 2011 to September 2018 – Deputy CEO for Legal, Corporate and Property Affairs at Gazpromneft
Since 2018 – head of Corporate Governance Department at Gazprom Neft
Worked as Secretary of the Supervisory Board at Gazprom Neft.
Holds no shares in Gazprom Neft and its subsidiaries. Has no family relations with other members of the Company’s governance bodies and/ or bodies exercising control over financial and business operations.

Alexey Dvortsov

Secretary of the Board of Directors from 1 January 2018 to 24 September 2018

Biographical details

» Born in 1972
» Graduated from St. Petersburg State University of Management (Moscow).
» Holds an MBA from Stockholm School of Economics (Stockholm).
Since 2007 to 21 September 2018 – head of Corporate Governance Department at Gazprom Neft.

In 2018, no claims were filed against the members of the Board of Directors.
The Board of Directors examined Gazprom Neft’s international expansion plans, including ambitions to grow its business in the Middle East.

Currently, Gazprom Neft’s portfolio boasts more than 25 upstream and downstream projects outside of Russia. As a business heavily impacted by external and internal factors, the Company needs to align and adjust its international targets accordingly. To this end, the Board of Directors holds regular meetings to review any matters pertaining to international operations.

On 14 December 2018, the Board examined the Company’s programme for the Russian offshore projects. Based on the Company’s capabilities and its strategic objectives, the offshore exploration programme was updated for the period until 2021. Going forward, it will be the driver behind Gazprom Neft’s sustainability in offshore operations and will help secure a leading position on the Russian continental shelf.

The Board of Directors also reviewed a number of matters pertaining to the key focus areas pursued by some of the Company’s lines of business that are linked to Gazprom Neft’s Development Strategy:

- performance and outlook for Gazprom Neft’s lubricants business;
- measures taken by Gazprom Neft to minimise the share of international procurement;
- developing channels to export Gazprom Neft’s oil and petroleum products; performance and outlook;
- long-term outlook for Gazprom Neft’s Oranburg oil production cluster; Aligning Gazprom Neft’s upstream expansion with the growth of Gazprom’s downstream capacities for oil and associated petroleum gas; portfolio analysis of Gazprom Neft’s upstream facilities, prioritisation and efficiency review of exploration and production activities;

Gazprom Neft’s Board of Directors reviewed the performance and outlook of its engine oils business, which is operated by Gazpromneft-Lubricants, founded in 2007 and now accounting for as much as 21% of the Russian market for engine oils in retail packaging.

With its strategic focus on high-tech product portfolio, Gazpromneft-Lubricants needs to ramp up its capacities, among other things, by setting up lubricants production in target international markets.

### Agenda Items reviewed by the Board of Directors in 2014–2018, by area

<table>
<thead>
<tr>
<th>Area</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
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<tr>
<td>Performance</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>64</td>
<td>33</td>
<td>22</td>
<td>27</td>
<td>29</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>12</td>
<td>27</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>142</td>
<td>131</td>
<td>143</td>
<td>112</td>
<td>127</td>
</tr>
</tbody>
</table>

Source: Company data

### Number of meetings held by the Board of Directors in 2014–2018

<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>In person</td>
<td>65</td>
<td>68</td>
<td>59</td>
<td>57</td>
<td>54</td>
</tr>
<tr>
<td>In absentia</td>
<td>14</td>
<td>10</td>
<td>18</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: Company data

### Attendance at meetings of the Board of Directors in 2018

<table>
<thead>
<tr>
<th>Director</th>
<th>Total number of meetings the director attended</th>
<th>Total number of meetings the director was eligible to attend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Yaroslav Dolgov</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Andrey Kragilov</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Andrey Sakhnenko</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Alexander Dyukov</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Igor Fedorov</td>
<td>34</td>
<td>38</td>
</tr>
<tr>
<td>Vladimir Alisov</td>
<td>56</td>
<td>66</td>
</tr>
<tr>
<td>Yurevich Chepurney</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>Mikhail Sereda</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>Semyon Fursenko</td>
<td>64</td>
<td>66</td>
</tr>
<tr>
<td>Elena Mikhailova</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Yaroslav Serydykov</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Andrey Dmitriev</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Nikolai Dubik</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Murat Imanov</td>
<td>28</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Company data

*Including through written opinion.*
Gazprom Neft’s Board of Directors reviewed the Company’s efforts aimed at increasing the share of Russian products and solutions in corporate procurement and introducing channels to export the Company’s oil and petroleum products. The Board also took note of information about the performance of the Downstream Efficiency Control Centre. A larger procurement share of Russian-made products is on the list of Gazprom Neft’s priorities. To deliver on this goal, the Company is making use of existing Russian solutions while also supporting the drive to innovate and market new products.

Combining the Company’s strategies for import substitution will help create in Russia more than 100 new high-tech products, which will benefit all of Gazprom Neft’s businesses. These will include high-tech drilling units, equipment and reagents for hydraulic fracturing, power generation, compression and downhole equipment, marine engineering solutions, equipment for offshore projects, and personal protective equipment.

Also, in 2018, the Board of Directors reviewed potential new channels to export oil and petroleum products, and assessed their efficiency and outlook going forward.

One of Gazprom Neft’s key export priorities is oil from the Arctic. To fulfil its ambitions, the Company has built an unprecedented logistic framework underpinned by the Prirazlomnaya offshore platform, Arctic Galos terminal, super ice-class vessels, and the transshipment hub at the Murmansk port.

Going forward, Gazprom Neft aims to increase its share in the European market by capitalising on the competitive advantages of its Arctic oil. New sales opportunities are currently under consideration.

The Board of Directors considered the long-term outlook for the Orenburg production cluster and progress on aligning Gazprom Neft’s upstream expansion with the growth of Gazprom’s downstream capacities for oil and associated petroleum gas. In the long run, the Orenburg production cluster will require the Company to successfully address the challenges of resource base and geography expansion in the region, efficiency improvement and greater use of technology in the upstream segment, and acquiring expertise in developing unconventional and hard-to-recover reserves.

The Board of Directors examined matters related to portfolio analysis of the Company’s upstream facilities and considered prioritisation and efficiency review of exploration and production activities. Since 2006, Gazprom Neft has doubled its annual output and considerably expanded its geography by launching a large number of new projects. Today, this Company has an upstream portfolio of assets scattered all across its footprint, including southern and central parts of Western Siberia, Gydan peninsula and Yamal in the Arctic zone of the Yamal-Nenets Autonomous Area, the Volga-Urals region, Eastern Siberia, the Balkans, and the Middle East. By efficiently operating its existing assets and identifying the key strategic areas, Gazprom Neft will be able to build a balanced long-term action plan for its Upstream Division.

In line with the approved work plan, the Board of Directors reviewed the results of the Company’s R&D activities, including their planning, financing, and management, and also practical implementation and efficiency analysis of R&D findings.

The Company uses R&D as a way to bolster its efficiency. By developing new software, including digital models and platforms, Gazprom Neft aims to integrate its operating processes, enhance flexibility, and make smart decisions faster. The catalysts and oil refining processes currently in progress will add value to the business, while the Company foray into unconventional reserves and development improvements at mature fields will help address the technology challenges faced by the industry at large. Gazprom Neft’s R&D is instrumental in promoting import substitution for oil refining catalysts, software, and drilling fluid components. The Board of Directors took note of the R&D priority areas based on the tasks and approaches outlined above.

The Board of Directors also approved the report on the 2017 progress against Gazprom Neft’s Innovative Development Programme, which received approximately 3.7 bn in financing for 2017 in line with the programme’s target. The largest expense items included upstream technology strategy, energy savings initiatives, designing a new catalyst production facility, and an R&D programme in oil refining.

In line with recommendations of the Corporate Governance Code and the Regulation on the Board of Directors of Gazprom Neft, strategy and priority business areas must be reviewed by the Board of Directors meetings held in person.
Key matters reviewed by the Board of Directors:

- the Group’s 2017 progress on implementation of Gazprom Neft’s Investment Programme, Budget (financial plan) and financial borrowings programme for 2017;
- progress on, and efficiency of, implementing Gazprom Neft’s Budget and Investment Programme for 2018, based on the Group’s performance in 1H 2018. Amendments to the Group’s Investment Programme and Budget (financial plan) for 2018;
- preliminary results of the Group’s Investment Programme and Budget in 2018;
- projects of the Investment Programme and the Budget (financial plan), including Gazprom Neft’s financial borrowings programme, and Cost Optimisation (Reduction) Programme for 2019 and outlook for the period until 2021;
- key performance indicators and their impact on Gazprom Neft’s efficiency;
- assessment and update of Gazprom Neft’s key risks based on performance in 2017;
- Gazprom Neft’s procurement activities;
- Gazprom Neft’s debt structure and debt portfolio management in 2017 and optimisation proposals for 2018;
- the Internal Audit Department’s performance report for 2017;
- approval of Gazprom Neft’s Exchange-Traded Bonds Programme;
- procedure to identify and sell non-core assets;
- assessment of performance of Gazprom Neft’s external auditor for 2017;
- external auditor’s fees for 2018.

In 2018, the Board of Directors assessed the effectiveness of the Company’s risk management and internal controls.

During its 2018 meetings held in person, the Board of Directors reviewed the Company’s risk management framework and outcomes of risk profile assessment and update based on performance in 2017.

Assessing and updating the key risks is a complex process covering all work streams of the integrated risk management framework, including the development and introduction of risk analysis and management tools and methods, and providing personnel training in risk management.

The Company’s risks are assessed on a regular basis as part of the annual cycle of key risk assessment. The list of key risks is updated regularly at the Company’s Corporate Centre. The most material risks of Gazprom Neft’s subsidiaries are consolidated into division level risk registers used as a basis for the draft Company-wide key risk register subject to approval by the Management Board.

The unit for monitoring the risk management framework supports the process of collecting risk information (including risk sessions, assessment analysis and reporting), starting from the level of subsidiaries all the way to divisions and the Management Board.

As part of preparations for the next annual cycle of key risk assessment and update, the unit held 29 risk sessions and took part in 11 independent reviews of large projects.

In order to improve the quality of information on the Company’s risks, Gazprom Neft runs initiatives aimed at developing tools and methods for risk identification and assessment, along with personnel training in risk management.

In 2018, the focus area in improving the tools and methods for risk identification and assessment was further integration of risk management with planning [strategic, business, and investment planning].
For this programme, Gazprom Neft received an award from the Russian Ministry of Natural Resources and Environment, which recognised the Company’s proactive environmental policy during the Year of the Environment.

Ensuring environmental safety in offshore projects is the Company’s absolute priority. Gazprom Neft has an integrated environmental monitoring system in place to confirm zero negative impact of its offshore projects, and a corporate programme for biodiversity preservation as a way to ensure sustainability of Arctic marine ecosystems in Russia. The programme was developed based on recommendations from the UN, Global Environment Fund, Ministry of Natural Resources and Environment, and WWF-Russia.

The key task for 2019 is to implement projects that will help to deliver on the Company’s environmental targets. Some of the core environmental projects are building the infrastructure to utilise APG on the Company’s fields, including deployment of the reinjection technology, introduction of equipment reducing the environmental footprint as part of projects to upgrade and modernise refineries, and construction of local treatment facilities at Gazprom Neft’s retail companies.

On 24 October 2018, the Board of Directors reviewed progress on the programme for APG utilisation and its improved use in 2018 and plans for 2019–2021.

With its current gas project portfolio, Gazprom Neft is perfectly positioned to continue improving its APG utilisation, driven mainly by the effective management of materials and equipment and the launch of new infrastructure facilities.

In the short term, the Company plans to complete on-site construction at the Urmansko-Archinskoye group of fields, continue with implementation of the gas programme at the Novoportovskoye field, and initiate APG utilisation at Gazprom Neft’s retail companies.

Also, as part of the corporate governance activities, the Board reviewed matters related to preparations for the Annual and Extraordinary General Meetings of Shareholders.

In 2018, the Board of Directors approved the following by-laws:

- » Regulation on the Secretary of the Board of Directors of Gazprom Neft;
- » amendments to Gazprom Neft’s Procedure for Interaction with Investee Entities;
- » amendments to Gazprom Neft’s Transaction Handling Procedure.

The existing Transaction Handling Procedure and Procedure for Interaction with Investee Entities (the Procedures) were approved by the Company’s Board of Directors in 2010. The amendments introduce increased thresholds for transactions as a way to improve the efficiency of the Board by transferring the authority to oversee ongoing operations to the CEO.

The Regulation on the Secretary of the Board of Directors was approved in line with recommendations of the Corporate Governance Code to reflect best Russian practices in corporate governance. Previously, the scope of authority of the Secretary of the Board of Directors was defined by the Regulation on the Board of Directors.

In line with recommendations of the Corporate Governance Code, the Board of Directors holds a regular assessment of the Company’s corporate governance framework, along with self-assessment.

The Board of Directors reviewed the performance of the Internal Audit and Risk Management Directorate for 1H 2018, taking note of a new centralised function of internal control recently established as part of the Internal Audit and Risk Management Directorate. This function will help ensure a single approach to how internal controls are set up and maintained, build the right corporate environment and culture, and better manage the flows of information related to internal controls.

In 2018, the Board of Directors approved the following by-laws:

- » Regulation on the Secretary of the Board of Directors of Gazprom Neft;
- » amendments to Gazprom Neft’s Procedure for Interaction with Investee Entities;
- » amendments to Gazprom Neft’s Transaction Handling Procedure.

The existing Transaction Handling Procedure and Procedure for Interaction with Investee Entities (the Procedures) were approved by the Company’s Board of Directors in 2010. The amendments introduce increased thresholds for transactions as a way to improve the efficiency of the Board by transferring the authority to oversee ongoing operations to the CEO.

The Regulation on the Secretary of the Board of Directors was approved in line with recommendations of the Corporate Governance Code to reflect best Russian practices in corporate governance. Previously, the scope of authority of the Secretary of the Board of Directors was defined by the Regulation on the Board of Directors.

Also, as part of the corporate governance activities, the Board reviewed matters related to preparations for the Annual and Extraordinary General Meetings of Shareholders.

COMMITTEES OF THE BOARD OF DIRECTORS
The Board of Directors has two committees – the Audit Committee and the Human Resources and Compensation Committee.

AUDIT COMMITTEE
The Audit Committee exercises oversight over the Company’s financial and business operations. Elected by the Board of Directors, it performs its duties under the Company’s Charter and by-laws.

Audit Committee meetings

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings</td>
<td>8</td>
<td>11</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Number of matters</td>
<td>22</td>
<td>30</td>
<td>34</td>
<td>35</td>
</tr>
</tbody>
</table>

Responsibilities The Audit Committee assists the Board of Directors in supervising the Company’s financial and business operations by reviewing the efficiency of internal controls, including those related to financial and other reporting, assessing their completeness and accuracy, and monitoring the risk management system. The Audit Committee helps maintain a constructive dialogue with the external auditor, bodies charged with financial and business oversight, and the Company’s internal audit functions. Its activities are defined by the Board of Directors’ work plan, with particular focus placed on financial matters and investment planning.

The Committee’s composition, status, competencies, functions and responsibilities are set out in the Regulation on the Audit Committee, which also provides an overview of relevant operating procedures and procedures used to convene and hold the Committee meetings.
The Committee members have core financial competencies and expertise to fulfill their duties, including the review of financial statements, assessment of business performance, and financial management. There are no senior managers of the Company sitting on the Audit Committee.

In accordance with its work plan for 2018, the Audit Committee held 13 meetings and reviewed the following key items:

- the Gazprom Neft Group’s IFRS consolidated financial statements for 2017 and 3M, 6M and 9M 2018;
- findings of Gazprom Neft’s external audit in 2017;
- the Internal Audit Department’s performance report for 2017;
- assessment and update of Gazprom Neft’s key risks based on performance in 2017;
- selection of Gazprom Neft’s auditor for 2018;
- outcomes of tax risk management initiatives in 2017 and 1H 2018;
- outcomes of credit risk management initiatives in 2017 and 1H 2018;
- concept for the Group’s shared credit control centre;
- outcomes of information system control initiatives in 2017 and 1H 2018;
- outcomes of the programme to warrant the performance and boost the quality of internal audit in 2017;
- disclosures to third parties, including analytical and rating agencies, and non-IFRS disclosures;
- external auditor’s fee for 2018;
- performance report of the Downstream Efficiency Control Centre for 1H 2018;
- report on eliminating the gaps identified by the external auditor in 2017.

The Committee members attended all meetings, with representatives of other department heads also invited to take part in the Committee meetings as required by the agenda.

HUMAN RESOURCES AND COMPENSATION COMMITTEE
The Human Resources and Compensation Committee is an advisory body of the Board of Directors.

The Committee’s composition, status, competencies, functions and responsibilities are set out in the Regulation on the Human Resources and Compensation Committee, which also provides an overview of relevant operating procedures and procedures used to convene and hold the Committee meetings.

In accordance with the Regulation, the Committee’s key responsibilities include:

- providing the Board of Directors with all the necessary recommendations, and non-IFRS disclosures;
- external auditor’s fee for 2018;
- performance report of the Downstream Efficiency Control Centre for 1H 2018;
- report on eliminating the gaps identified by the external auditor in 2017.

The Committee members attended all meetings, with representatives of the external auditor and the Management Board, Head of Internal Audit and other department heads also invited to take part in the Committee meetings as required by the agenda.

MEMBERS OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE
From 20 June 2017 to 21 June 2018:
- Nikolai Dubik (Chairman)
- Andrey Kruglov
- Vsevolod Cherepanov
- Sergey Fursenko (independent director)

From 22 June 2018 to 31 December 2018:
- Igor Fedorov (Chairman)
- Andrey Kruglov
- Vsevolod Cherepanov
- Sergey Fursenko (independent director)

In 2018, the Committee held four meetings and reviewed the following key items:

- shareholder proposals as regards nominees to Gazprom Neft’s Board of Directors and Audit Commission; assessment of nominees to the Board of Directors;
- remuneration of directors;
- assessment of nominees to the Board of Directors;
- assessment of the Board of Directors’ performance.

In 2018, the Human Resources and Compensation Committee approved new criteria to assess performance of the Board of Directors. Aligned with the Company’s current goals and objectives, these new criteria will enable in-depth analysis of the Board’s key processes.

In the reporting year, the Committee also reviewed each nominee to the Board of Directors for compliance with the independence criteria and submitted the following conclusions:

1. The nominees have the required knowledge, experience and education and are sufficiently qualified to perform the directors’ duties and contribute to the Board’s efficient performance for the benefit of the Company and its shareholders.
2. Each nominee boasts an impeccable personal and professional track record, which, among other things, implies no criminal records, whether in the past or at present.
3. The Board of Directors is set to have two independent directors who will make up 15% of all Board members, falling short of the threshold prescribed by the Corporate Governance Code.
4. The Board of Directors is set to have two independent directors who will make an annual self-assessment in all areas of its activities.

In line with best corporate governance practices, the Board of Directors runs an annual self-assessment in all areas of its activities.

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

The Board’s performance assessment is held in the form of survey (polling). The questionnaire contains around 30 questions covering such key areas as the Board’s composition, type of activities, operating procedures, assessment of performance by the Chairman, committees and the Secretary of the Board, and interactions among directors.

Polling results help quickly analyse the status quo of the Board’s key processes, including strategy, business practices, the Company’s efficiency management, support of the Board and its committees, and personal contributions of directors, including the Chairman and the Secretary.

The reporting year’s assessment revealed improvements in setting strategic priorities and interactions with top executives. 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.
Induction for Newly Elected Directors
To boost efficiency of the Board of Directors, the Human Resources and Compensation Committee runs an induction programme for newly elected directors.

The programme aims to bring new directors up to speed with the Company’s financial and economic operations, production processes and corporate governance practices in the quickest and most efficient way possible.

The programme comprises the following stages:

1. meeting with the Chairman of the Board of Directors to discuss the Board’s work plan and the Company’s priorities; determination of the new director’s role on the Board based on their professional knowledge and expertise;
2. meeting with the senior management team for a short briefing on the Company’s operations, rundown on the Company’s operational and financial structure, and introduction to the Management Board;
3. consultations with the Secretary of the Board of Directors who provides information on procedural and legal aspects of the work done by the Board and its committees, the rights and responsibilities of directors, their remuneration, liabilities and liability insurance;
4. a quick walk through the Company’s key documents and guidelines for directors describing main business aspects, internal procedures and the setup of the Board of Directors and its committees.
5. The programme may also offer visits to the Company’s core assets, participation in its public events and meetings with key managers.

The induction programme is reserved to the remit of the Human Resources and Compensation Committee.

In 2018, the Board of Directors welcomed two new directors – Igor Fedorov and Andrey Dmitriev, Gazprom’s employees. As both of them are well aware of the Boards’ operating procedures, the rights and responsibilities of directors, their remuneration and liability insurance.

Management Board and CEO

The structure of Gazprom Neft’s executive bodies is set out in the Charter and includes the Management Board and the CEO. The Management Board is a collegial executive body responsible for the day-to-day management of the Company’s operations. Under Gazprom Neft’s Charter, the Board of Directors establishes the Management Board and appoints it by the CEO. The Board of Directors by its resolution also sets the term of office of the Management Board. Qualification requirements for the Management Board members are specified in Gazprom Neft’s by-laws.

Scope of authority of the Management Board and the CEO

Key functions of the Management Board:
- to provide oversight over how resolutions of the General Meeting of Shareholders and the Board of Directors are implemented;
- to develop forward-looking plans and major programmes of Gazprom Neft, including the annual budget and investment programmes, prepare relevant status reports, and develop and approve current plans of the Company’s operations;
- to monitor the implementation of forward-looking and current plans and programmes along with investment, financial and other projects;
- to prepare and submit to the Board of Directors proposals regarding Gazprom Neft participation or termination of participation in other organisations (including foreign ones), formation or dissolution of the Company’s branches or representative offices.

The CEO reports to the Board of Directors and the General Meeting of Shareholders. The CEO manages day-to-day operations of the Company and acts as per the scope of authority set forth by the Charter of Gazprom Neft.

Key functions of the CEO:
- to enter into transactions on the Company’s behalf and manage the Company’s assets subject to by-laws governing the transaction handling procedure and interaction with insolvency entities;
- to approve the staffing profile of the Company, its branches and representative offices, determine the form, system, and amount of remuneration;
- to approve by-laws of the Company governing its day-to-day operations;
- subject to approval by the Board of Directors, to appoint and dismiss Deputy CEOs, Chief Accountant, head of legal function, head of debt security, head of competitive procurement, and heads of branches and representative offices;
- to ensure the implementation of resolutions of the General Meeting of Shareholders, Board of Directors, and Management Board, and discharge obligations to the state budget and counterparties;
- to make resolutions on the Company’s participation or termination of participation in other organisations, where such resolution will result in a transaction of up to 0.2% of the book value of the Company’s assets according to its latest accounting statements or where it is associated with the reorganisation or winding-up of any organisation with a book value of up to ₽1 bn;
- to make resolutions on the Company’s participation or handling transactions of up to 0.2% of the book value of the Company’s assets according to its latest accounting statements.

In 2018, Gazprom Neft’s Board of Directors engaged the Independent Directors’ Association (IDA), a recognised expert in corporate governance and board efficiency, to conduct external assessment of the Board performance as recommended by the Russian Corporate Governance Code. The external assessor noted that the Company’s management and Board of Directors had worked hard to further improve Gazprom Neft’s corporate governance practices since the previous assessment made in 2017, including as regards monitoring of progress made under the Strategy, risk management, budget planning and implementation controls, staging and holding of meetings of the Board and its committees, and performance management. The external assessment helped identify key improvement areas for the Board of Directors. These included sustained focus on the implementation of long-term strategic projects and the need to pay closer attention to labour productivity, import substitution, health, safety and environment.
Composition of the Management Board

Alexander Dyukov
Chairman of the Management Board and CEO
Shareholding (as at 31 December 2018):
0.001051526 %
(49,856 shares)

Vadim Yakovlev
Deputy Chairman of the Management Board, First Deputy CEO
Shareholding (as at 31 December 2018):
0.001293164 %
(11,951 shares)

Igor Antonov
Member of the Management Board, Deputy CEO for Security
Shareholding (as at 31 December 2018):
None

Alexander Dybal
Member of the Management Board, Deputy CEO for Corporate Communications
Shareholding (as at 31 December 2018):
None

Biographical details

Alexander Dyukov
Born in 1970
Graduated from Moscow Engineering Physics Institute and Higher Finance School of Leningrad University in 1994
earned an ACCA Qualification (Association of Chartered Certified Accountants). In 2001 – a diploma from the Institute of Directors (IoD, UK).

2006–2007 – Head of Planning and Budgeting Department at Gazpromneft.
September to December 2007 – Vice President for Finance at Gazpromneft.
Since October 2007 – member of the Management Board at Gazpromneft, since December 2007 – Deputy CEO for Economics and Finance at SIBUR.
May 2010 to August 2011 – First Deputy CEO, CFO at Gazprom Neft.
Since 2011 – member of the Board of Directors at Lakhta Centre.
Since 2011 – member of the Supervisory Board at Salym Petroleum Development N.V.
Since 2011 – member of the Board of Directors at Gazpromneft-Sakhalin.
Since 2011 – member of the Board of Directors at Gazpromneft-Khanvar.
Since 2011 – member of the Board of Directors at Gazpromneft Scientific and Research Centre.
Since 2011 – member of the Supervisory Board at Salym Petroleum Development N.V.
Since 2012 – Chairman of the Board of Directors at Skwez-Megafonnologiya.
Since 2012 – Chairman of the Board of Directors at Gazpromneft-Spektr.
Since 2012 – member of the Board of Directors at Gazpromneft-Khanvar.
Since 2015 – member of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – chairman of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – member of the Board of Directors at Gazpromneft-Shelf.
Since 2016 – member of the Supervisory Board at Tyumen State University.
Since 2016 – Chairman of the Board of Directors at Gazpromneft-Khanvar.
Since 2016 – Chairman of the Board of Directors at Gazpromneft-Neftekhim.
Since 2018 – Chairman of the Board of Directors at Gazpromneft-CEO.
Since 2018 – Chairman of the Board of Directors at Sibur.
Since 2018 – Chairman of the Board of Directors at Baltas Technology Centre.
Since 2018 – Chairman of the Supervisory Board at Salym Petroleum Development N.V.

Vadim Yakovlev
Born in 1970
Graduated from Moscow Engineering Physics Institute and Higher Finance School of Leningrad University in 1994.


Igor Antonov
Born in 1966
Graduated from Leningrad Electrotechnical Institute.

2000–2005 – Chairman of the Board of Directors at OJSC Gazprom-Neft.
2005–2007 – Chairman of the Board of Directors at OJSC Gazprom-Neft, since December 2007 – Deputy CEO for Economics and Finance at SIBUR.
2006–2007 – Head of Planning and Budgeting Department at Gazpromneft.
September to December 2007 – Vice President for Finance at Gazpromneft.
Since October 2007 – member of the Management Board at Gazprom Neft, since December 2007 – Deputy CEO for Economics and Finance at SIBUR.
May 2010 to August 2011 – First Deputy CEO, CFO at Gazprom Neft.
Since 2011 – First Deputy CEO at Gazprom Neft and Deputy Chairman of the Management Board.

Alexander Dybal
Born in 1974
Graduated from Leningrad Electrotechnical Institute.

2000–2005 – Chairman of the Board of Directors at OJSC Gazprom-Neft.
2006–2007 – Chairman of the Management Committee at Gazprom.
December 2007 – present – member of the Management Board at Gazprom Neft, Deputy CEO for Corporate Communications.

Positions held in other organisations

Positions held in other organisations

Biographical details

Alexander Dyukov
Chairman of the Management Board and CEO

Vadim Yakovlev
Deputy Chairman of the Management Board, First Deputy CEO

Igor Antonov
Member of the Management Board, Deputy CEO for Security

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

Positions held in other organisations

Since 2000 – President of the Management Board of Sibur Holding.
Since 2005 – member of the Board of Directors.
Since 2006 – President, since December 2007 – Chairman of the Management Board and CEO at Gazprom Neft.
Since 2008 – Chairman of the Board of Trustees at St-Petersburg Mining University.
Since 2009 – member of the Board of Directors at Naftna Industrija Srbije A.D., Novi Sad.
Since 2010 – member of the Board of Directors at SKA Ice Hockey Club.
Since 2010 – member of the Board of Directors at Hockey City, Moscow.
Since 2010 – member of the Board of Trustees at the Russian Geographical Society.
Since 2011 – member of the Board of Directors at Gazpromneft-Sakhalin.
Since 2011 – member of the Board of Directors at Gazpromneft-Khanvar.
Since 2011 – member of the Board of Directors at Gazpromneft Scientific and Research Centre.
Since 2011 – member of the Supervisory Board at Salym Petroleum Development N.V.
Since 2012 – Chairman of the Board of Directors at Skwez-Megafonnologiya.
Since 2012 – member of the Board of Directors at Gazpromneft-Spektr.
Since 2012 – member of the Board of Directors at Gazpromneft.
Since 2012 – Chairman of the Board of Directors at Gazpromneft-Megafonnologiya.
Since 2015 – Chairman of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – member of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – chairman of the Board of Directors at Gazpromneft-CEO.
Since 2018 – Chairman of the Board of Directors at Gazpromneft.

Igor Antonov
Member of the Management Board, Deputy CEO for Security

Since 2000 – President of the Management Board of Sibur Holding.
Since 2005 – member of the Board of Directors.
Since 2006 – President, since December 2007 – Chairman of the Management Board and CEO at Gazprom Neft.
Since 2008 – Chairman of the Board of Trustees at St-Petersburg Mining University.
Since 2009 – member of the Board of Directors at Naftna Industrija Srbije A.D., Novi Sad.
Since 2010 – member of the Board of Directors at SKA Ice Hockey Club.
Since 2010 – member of the Board of Directors at Hockey City, Moscow.
Since 2010 – member of the Board of Trustees at the Russian Geographical Society.
Since 2011 – member of the Board of Directors at Gazpromneft-Sakhalin.
Since 2011 – member of the Board of Directors at Gazpromneft-Khanvar.
Since 2011 – member of the Board of Directors at Gazpromneft Scientific and Research Centre.
Since 2011 – member of the Supervisory Board at Salym Petroleum Development N.V.
Since 2012 – Chairman of the Board of Directors at Skwez-Megafonnologiya.
Since 2012 – member of the Board of Directors at Gazpromneft-Spektr.
Since 2012 – member of the Board of Directors at Gazpromneft.
Since 2012 – Chairman of the Board of Directors at Gazpromneft-Megafonnologiya.
Since 2015 – Chairman of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – member of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – chairman of the Board of Directors at Gazpromneft-CEO.
Since 2018 – Chairman of the Board of Directors at Gazpromneft.

Positions held in other organisations

Since 2000 – President of the Management Board of Sibur Holding.
Since 2005 – member of the Board of Directors.
Since 2006 – President, since December 2007 – Chairman of the Management Board and CEO at Gazprom Neft.
Since 2008 – Chairman of the Board of Trustees at St-Petersburg Mining University.
Since 2009 – member of the Board of Directors at Naftna Industrija Srbije A.D., Novi Sad.
Since 2010 – member of the Board of Directors at SKA Ice Hockey Club.
Since 2010 – member of the Board of Directors at Hockey City, Moscow.
Since 2010 – member of the Board of Trustees at the Russian Geographical Society.
Since 2011 – member of the Board of Directors at Gazpromneft-Sakhalin.
Since 2011 – member of the Board of Directors at Gazpromneft-Khanvar.
Since 2011 – member of the Board of Directors at Gazpromneft Scientific and Research Centre.
Since 2011 – member of the Supervisory Board at Salym Petroleum Development N.V.
Since 2012 – Chairman of the Board of Directors at Skwez-Megafonnologiya.
Since 2012 – member of the Board of Directors at Gazpromneft-Spektr.
Since 2012 – member of the Board of Directors at Gazpromneft.
Since 2012 – Chairman of the Board of Directors at Gazpromneft-Megafonnologiya.
Since 2015 – Chairman of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – member of the Board of Directors at Gazpromneft-Neftekhim.
Since 2015 – chairman of the Board of Directors at Gazpromneft-CEO.
Since 2018 – Chairman of the Board of Directors at Gazpromneft.
Biographical details

Vladislav Baryshnikov
Member of the Management Board, Deputy CEO for International Business Development

Elena Ilyukhina
Member of the Management Board, Deputy CEO for Legal and Corporate Affairs

Kirill Kravchenko
Member of the Management Board, Deputy CEO for Organizational Affairs

Andrey Patrushev
Member of the Management Board, Deputy CEO for Offshore Development

Biographical details

Vladislav Baryshnikov
- Born in 1969
- Graduated from the Red Flag Military Institute of the Russian Federation, the 1st Class
- Since April 2009 – Deputy CEO for International Business Development, since November 2007 – member of the Management Board at Gazprom Neft
- Oversees international business development and relations with foreign partners
- Since 2011 – member of the Board of Directors at Gazprom Neft International S.A.

Elena Ilyukhina
- Born in 1976
- Graduated from Ulyanov (Lenin) Saint Petersburg Electrotechnical University and Saint Petersburg State University with a PhD in Economics (2001)
- 2001-2007 – Deputy CEO at the Rublyov-Spassky Regional Hospital and Rehabilitation Centre of the Russian Presidential Executive Office
- Prior to joining Gazprom Neft, served as executive director at North-Western Investment Company
- Since December 2007 – member of the Management Board at Gazprom Neft, Deputy CEO for Legal and Corporate Affairs
- Provides legal and corporate support to the Company
- Since 2004 – member of the Board of Directors at Avtomatika-Servis
- Since 2012 – member of the Board of Directors at Gazpromneft Ravpo
- Since 2015 – member of the Board of Directors at Gazpromneft-Sakhneft
- Since 2015 – member of the Board of Directors at Gazpromneft-Sakhalin
- Since 2016 – member of the Board of Directors at Gazpromneft-Sakhalin
- Since 2018 – member of the Board of Directors at Gazpromneft-Sakhalin

Kirill Kravchenko
- Born in 1976
- Graduated from Lomonosov Moscow State University, Open University (UK), and IMD Business School. Holds a post-doctoral degree in Economics, Professor.
- Since April 2007 – Vice President at Gazprom Neft
- Since April 2007 – Deputy CEO for Organizational Affairs
- Since 2009 – CEO of NIS A.D., Novi Sad
- Since 2009-2017 – member of the Management Board at Gazprom Neft
- 2009-2017 – CEO of NIS A.D., Novi Sad
- Since 2017 – member of the Board of Directors at ITSK
- Since 2017 – Chairman of the Board of Directors at ITSK
- Since 2018 – member of the Board of Directors at ITSK
- Since 2018 – Chairman of the Board of Directors at ITSK
- Since 2015 – member of the Board of Directors at Gazpromneft-Sakhneft
- Since 2015 – member and Chairman of the Board of Directors at Gazprom Neft Shelf
- Since 2016 – Chairman of the Board of Directors at Gazpromneft-Sakhalin
- Since 2019 – Chairman of the Board of Directors at Gazpromneft-Priobskoye
- Since 2019 – member of the Board of Directors and CEO at Gazprom Neft Shelf

Andrey Patrushev
- Born in 1965
- Graduated from the Red Flag Military Institute of the Russian Federation, the 1st Class
- Since April 2009 – Deputy CEO for International Business Development, since November 2007 – member of the Management Board at Gazprom Neft
- Oversees international business development and relations with foreign partners
- Since 2011 – member of the Board of Directors at Gazprom Neft International S.A.

Positions held in other organisations

Vladislav Baryshnikov
- Since 2011 – member of the Board of Directors at Gazprom Neft International S.A.

Elena Ilyukhina
- Since 2004 – member of the Board of Directors at Avtomatika-Servis
- Since 2004 – member of the Board of Directors at Gazpromneft Ravpo
- Since 2012 – member of the Board of Directors at Gazpromneft-Sakhneft
- Since 2015 – member of the Board of Directors at Gazpromneft-Sakhalin
- Since 2015 – member of the Board of Directors at Gazpromneft-Sakhalin
- Since 2016 – member of the Board of Directors at Gazpromneft-Sakhalin
- Since 2018 – member of the Board of Directors at Gazpromneft-Sakhalin

Kirill Kravchenko
- Since 2017 – Chairman of the Board of Directors at ITSK
- Since 2019 – Chairman of the Board of Directors at Gazpromneft-Priobskoye

Andrey Patrushev
- Since 2015 – member of the Board of Directors at Gazpromneft-Sakhneft
- Since 2015 – member of the Board of Directors at Gazprom Neft Shelf
- Since 2016 – Chairman of the Board of Directors at Gazpromneft-Sakhalin
- Since 2019 – Chairman of the Board of Directors at Gazpromneft-Priobskoye
- Since 2019 – member of the Board of Directors and CEO at Gazprom Neft Shelf
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**Gazpromneft**

**MANAGEMENT BOARD**

**On the agenda depending on the resolutions adopted by the General Meeting of Shareholders and the Board of Directors proposals submitted by the Company’s CEO and members of the Management Board.**

The Management Board’s work plan is developed based on the suggestions coming from the heads of Gazprom Neft’s business units. **In 2018, the Management Board held 21 meetings, including eight meetings held in person.**

The Management Board’s work plan is developed based on the suggestions coming from the heads of Gazprom Neft’s business units.

**Positions held in other organisations**

- Since 2006 – member of the Board of Directors at SLAVNEFT
- Since 2007 – member of the Board of Directors at Slavneft-YANOS
- Since 2008 – Chairman of the Board of Directors at Gazpromneft
- Since 2009 – member of the Board of Directors at SPIMEX
- Since 2009 – member of the Supervisory Board at Mozyr Refinery
- Since 2010 – Chairman of the Board of Directors at Gazprom Neft
- Since 2011 – member of the Board of Directors at Gazpromneft-Aero
- Since 2015 – member of the Board of Directors at Gazprom Neft Shelf
- Since 2016 – Chairman of the Board of Directors of Gazpromneft Lube Italia Spa
- Since 2016 – Chairman of the Board of Directors of Gazpromneft Lubricants Srbije A.D., Novi Sad
- Since 2016 – Chairman of the Board of Directors at Gazpromneft Catalyst Systems
- Since 2017 – Chairman of the Board of Directors at Automatika Service

**Biographical details**

- Born in 1973
- Graduated from Saint Petersburg Electrotechnical University (LETI) and LETI-Lavoisier International School at LETI
- 2004 – earned the qualification of Certified Management Accountant (CMA)
- 2005–2007 – Deputy CFO at LUKOIL Lubricants company
- 2007–2011 – Head of Building and Planning Department and Economics and Corporate Planning Directorate at Gazpromneft
- 2011–2012 – acting Deputy CEO for Economics and Finance at Gazprom Neft
- Since March 2012 – member of the Management Board and Deputy CEO for Economics and Finance at Gazprom Neft
- Since March 2012 – member of the Management Board, Deputy CEO for Logistics, Refining and Sales at Gazprom Neft

In the reporting year, neither the Chairman nor members of the Management Board made any transactions involving acquisition or disposal of the Company’s shares.

**Report on performance of the Management Board in 2018**

The Management Board meets on a regular basis, with the makeup of items on the agenda depending on the resolutions adopted by the General Meeting of Shareholders and the Board of Directors proposals submitted by the Company’s CEO and members of the Management Board.

The Management Board’s work plan is developed based on the suggestions coming from the heads of Gazprom Neft’s business units.

In 2018, the Management Board held 21 meetings, including eight meetings held in person. The meetings focused on the key aspects of the Management Board’s ongoing operations. In particular, the Management Board:

- took note of the Group’s 2017 progress on implementation of Gazprom Neft’s Investment Programme, Budget (financial plan) and Financial Borrowings Programme for 2017;
- reviewed the Company’s business plans for 2019–2021 and production divisions’ performance in 2017;
- took note of the preliminary results of Gazprom Neft’s Investment Programme and Business Plan in 2018, and reviewed the Group’s consolidated Business Plan for 2019–2021;

**Update of the list of members of the Management Board**

- Alexander Dyukov
- Igor Antonov
- Vadim Yakovlev
- Anatoly Cherner
- Alexei Yankevich
- Kirill Kravchenko
- Andrey Patrushev
- Elena Ilyukhina
- Vladislav Baryshnikov
- Alexander Dybal
- Anatoly Cherner
- Kirill Kravchenko
- Andrey Patrushev
- Elena Ilyukhina
- Vladislav Baryshnikov
- Alexander Dybal

**Positions held in other organisations**

- Since 2006 – Vice President for Refining and Sales at Gazpromneft
- Since 2007 – member of the Board of Directors at Slavneft-YANOS
- Since 2008 – Chairman of the Board of Directors at Gazpromneft
- Since 2009 – member of the Board of Directors at SPIMEX
- Since 2009 – member of the Supervisory Board at Naftna Industrija Srpska A.D., Novi Sad
- Since 2010 – Chairman of the Board of Directors at Gazprom Neft
- Since 2011 – member of the Board of Directors at Gazprom Neft-Aero
- Since 2012 – member of the Management Board and Deputy CEO for Economics and Finance at Gazprom Neft
- Since 2012 – member of the Management Board, Deputy CEO for Logistics, Refining and Sales at Gazprom Neft
- Since 2016 – Chairman of the Board of Directors at Gazpromneft
- Since 2016 – member of the Board of Directors at Gazpromneft Lube Italia Spa
- Since 2016 – Chairman of the Board of Directors of Gazpromneft Catalyst Systems
- Since 2017 – Chairman of the Board of Directors at Automatika Service

**Attendance at meetings of the Management Board in 2018**

**Number of meetings held by the Management Board in 2016–2018**

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>In person</td>
<td>22</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>In absentia</td>
<td>15</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Tally</td>
<td>37</td>
<td>22</td>
<td>28</td>
</tr>
</tbody>
</table>

**Attendance at meetings of the Management Board in 2018**

<table>
<thead>
<tr>
<th>Member</th>
<th>Full name</th>
<th>Number of meetings attended by the Management Board member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander Dyukov</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Igor Antonov</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>Vadim Yakovlev</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Alexander Dybal</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Elena Ilyukhina</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Kirill Kravchenko</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Andrey Patrushev</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Anatoly Cherner</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Vadim Yakovlev</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Alexei Yankevich</td>
<td>21</td>
<td>21</td>
</tr>
</tbody>
</table>

**No claims were filed against the CEO or members of the Management Board in 2018**
Remuneration payable to governance bodies

REMUNERATION OF THE BOARD OF DIRECTORS

Remuneration payable to the Board of Directors is linked to the Company’s financial results and is subject to annual approval by the shareholders. The discretionary control by shareholders is necessary to prevent potential abuse of the remuneration process. As resolved by the General Meeting of Shareholders, the remuneration accrued and paid to the directors not serving on the Company’s executive bodies (non-executive directors) in 2018 stood at 0.005% of EBITDA under the Group’s consolidated IFRS financial statements for 2017.

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

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

Remuneration paid to directors for membership in a governance body

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Amount (₽)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller</td>
<td>Chairman of the Board of Directors</td>
<td>41,322,525</td>
</tr>
<tr>
<td>Vladimir Alisov</td>
<td>Director</td>
<td>27,548,350</td>
</tr>
<tr>
<td>Mariya Garayev</td>
<td>Director, member of the Audit Committee</td>
<td>27,548,350</td>
</tr>
<tr>
<td>Valery Golubev</td>
<td>Director, member of the Audit Committee</td>
<td>30,303,185</td>
</tr>
<tr>
<td>Nikolai Dubik</td>
<td>Director, member of the Audit Committee, Chairman of the Human Resources and Compensation Committee</td>
<td>34,435,438</td>
</tr>
<tr>
<td>Andrey Kruglov</td>
<td>Director, member of the Audit Committee and Human Resources and Compensation Committee</td>
<td>30,303,185</td>
</tr>
<tr>
<td>Elena Mikhailova</td>
<td>Director</td>
<td>27,548,350</td>
</tr>
<tr>
<td>Kirill Seleznev</td>
<td>Director</td>
<td>27,548,350</td>
</tr>
<tr>
<td>Mikhail Sereda</td>
<td>Director, Chairman of the Audit Committee</td>
<td>31,680,603</td>
</tr>
<tr>
<td>Valery Serebadkov</td>
<td>Director</td>
<td>27,548,350</td>
</tr>
<tr>
<td>Sergey Furshenko</td>
<td>Director, member of the Human Resources and Compensation Committee</td>
<td>30,303,185</td>
</tr>
<tr>
<td>Vsevolod Cherepanov</td>
<td>Director, member of the Human Resources and Compensation Committee</td>
<td>30,303,185</td>
</tr>
<tr>
<td>Alexander Dyukov</td>
<td>Executive director</td>
<td>No remuneration</td>
</tr>
</tbody>
</table>

TOTAL                     |                                               | 366,393,056 |

REMUNERATION OF THE MANAGEMENT BOARD

The Company has put in place a well-structured and fair remuneration scheme for the Management Board and senior management that links bonuses to short-term targets. On top of bonuses for achieving the said targets, the Company introduced incentives hinging on its market capitalisation in the three-year horizon.

Remuneration payable to the Management Board includes:

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

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

The annual bonus is designed to motivate key managers to achieve annual targets and is calculated following the review and approval of their performance against a set of KPIs and business initiatives. The KPIs cover metrics to assess delivery on the Company’s strategic goals, along with corporate, financial, project performance and HSE compliance metrics.

To boost the efficiency of financial incentives offered to employees to meet annual targets and, by extension, the Company’s strategic goals, the Board of Directors approved Annual Bonus Policy, an underlying document that links KPIs with annual bonuses payable to the Company’s and its subsidiaries’ employees.

By and large, the Company uses annual bonuses to:

- motivate employees to achieve annual targets and, by extension, the Company’s strategic goals, the Board of Directors approved Annual Bonus Policy, an underlying document that links KPIs with annual bonuses payable to the Company’s and its subsidiaries’ employees.

Key annual bonus plan parameters:

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

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

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

Strategic targets (plan and actual) are subject to approval by the Board of Directors.
The long-term incentive programme (LTIP) reliant on market capitalisation growth forms an integral part of the Group’s long-term strategy and serves to remunerate the managers in case of an increase in shareholder value for a specific period.

The programme seeks to:
- boost the Company’s long-term performance;
- harmonise the interests of the Company’s shareholders and senior management;
- balance short-term results and long-term sustainability;
- attract and retain senior managers in line with best domestic and international practices.

LTIP rewards are conditional on positive changes to the Company’s market cap in each of the programme’s three-year periods. Eligible for participation are the Company’s senior managers provided they meet certain criteria.

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

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

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

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

<table>
<thead>
<tr>
<th>Metric</th>
<th>2018 (adjusted plan)</th>
<th>2018 (actual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalised consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) (₽ bn)</td>
<td>777.6</td>
<td>799.9</td>
</tr>
<tr>
<td>Economic value added (EVA) (₽ bn)</td>
<td>125.6</td>
<td>178.9</td>
</tr>
<tr>
<td>Return on average capital employed (ROACE) (%)</td>
<td>17.6</td>
<td>19.7</td>
</tr>
<tr>
<td>Day/EBITDA</td>
<td>0.92</td>
<td>0.72</td>
</tr>
<tr>
<td>Total proved reserves, including share in affiliates (mtoe)</td>
<td>3,640</td>
<td>3,641</td>
</tr>
<tr>
<td>Reserve-replacement ratio (RRR) (%)</td>
<td>100</td>
<td>87</td>
</tr>
<tr>
<td>Hydrocarbon production (mtoe)</td>
<td>92.7</td>
<td>92.9</td>
</tr>
<tr>
<td>Refining volume (mt)</td>
<td>42.5</td>
<td>42.9</td>
</tr>
<tr>
<td>Premium sales (₽m)</td>
<td>26.3</td>
<td>27.4</td>
</tr>
<tr>
<td>Refining depth (%)</td>
<td>82.7</td>
<td>83.1</td>
</tr>
<tr>
<td>Labour productivity (₽m per employee)</td>
<td>37.20</td>
<td>60.18</td>
</tr>
<tr>
<td>Crude production (mt)</td>
<td>62.8</td>
<td>63.0</td>
</tr>
<tr>
<td>Crude and petroleum product sales (mt)</td>
<td>69.2</td>
<td>70.5</td>
</tr>
</tbody>
</table>

Total remuneration in 2018 by item (₽ '000)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Board of Directors</th>
<th>Management Board</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for membership in a governance body</td>
<td>366,393</td>
<td>366,393</td>
<td>366,393</td>
</tr>
<tr>
<td>Salary</td>
<td>–</td>
<td>679,810</td>
<td>679,810</td>
</tr>
<tr>
<td>Bonuses</td>
<td>–</td>
<td>633,437</td>
<td>633,437</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>14,795</td>
<td>14,795</td>
</tr>
<tr>
<td>TOTAL</td>
<td>366,393</td>
<td>1,328,042</td>
<td>1,694,435</td>
</tr>
</tbody>
</table>
The year 2018 saw Lakhta Centre, a multifunctional complex and Gazprom Neft’s project, put into operation. It was built in record time and is designed to become the Gazprom Group’s headquarters.

Lakhta Centre has become a Russian benchmark for global best practice in high-rise construction.
INTERNAL CONTROL AND RISK MANAGEMENT

Internal control

Gazprom Neft’s Internal Control Policy approved by the Board of Directors in 2017 is the principal document specifying the aims, objectives, components, organisational and functional principles of the Company’s internal controls. Key to internal controls effectiveness is the engagement of the Company’s senior management, heads of business units and all employees.

The internal control framework aims to:
- identify and assess 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 material control weaknesses and suggest remedial actions;
- ensure business continuity and efficiency, along with sustainability and evolution, including timely adaptation to internal and external changes;
- provide quality informational, methodological and analytical support for the management decision making;
- facilitate due allocation of responsibilities, powers and functions among internal control units, with no overlapping;
- continuously improve the control framework with respect to information technology;
- timely settle conflicts of interest emerging in the course of business.

INTERNAL CONTROL UNITS COMPOSITION AND ALLOCATION OF 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:

Gazprom Neft’s Board of Directors managing the Company’s overall operations has been given the remit to:
- establish a proper control environment, foster the internal control culture and maintain high ethical standards at all business levels;
- determine the principles of and approaches to establishing and maintaining the Company’s internal controls;
- analyse and assess the effectiveness of the Company’s internal controls, including by way of conducting annual reviews and making improvement recommendations where necessary. The relevant information is provided to shareholders as part of the Company’s annual report and the Internal Audit Department’s performance report;
- control the implementation of instructions and resolutions of Gazprom Neft’s Board of Directors and shareholders by the Company’s executive bodies;
- control the Company’s compliance with the Russian laws, corporate governance and complete and accurate disclosures to stakeholders;
- approve the Internal Control Policy.

The Audit Committee’s role is to:
- provide recommendations to Gazprom Neft’s Board of Directors on the establishment, maintenance, assessment and improvement of the Company’s internal controls, and on other matters within the competence of the Audit Committee (including following the review of the Internal Control Policy);
- undertake a preliminary review of internal control matters;
- undertake a preliminary review of the Internal Control Policy (before it is approved by Gazprom Neft’s Board of Directors);
- analyse and assess the effectiveness of the Company’s internal controls;
- review 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;
- review the identified or potential misconduct of the Company’s employees.

The Company’s executive bodies and senior management are tasked with responsibilities to:
- facilitate the development and ensure the effectiveness of internal controls by approving local regulations on internal control procedures to be adopted by the Company’s business units in accordance with their activities;
- establish a proper control environment, foster the internal control culture and maintain high ethical standards at all business levels, ensuring effective establishment and maintenance of internal controls;
- 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;
- 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 business 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;
- 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 Internal Audit Department within the Internal Audit and Risk Management Directorate has been given the remit to:
- independently and objectively assess the effectiveness of the Company’s internal controls based on the risk-oriented approach;
- make improvement recommendations following audits and monitor their implementation;
- provide advisory support to stakeholders within the Company with respect to internal controls establishment and maintenance;
- inform the Company’s Audit Committee, executive bodies and, where necessary, Gazprom’s business unit responsible for internal audit of internal controls assessment results and improvement suggestions.

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.
AUDIT COMMISSION
The Audit Commission is a permanent body responsible for the monitoring of Gazprom Neft’s financial and business operations. It acts in the interests of shareholders and is accountable to the General Meeting of Shareholders.

Pursuant to the Charter and the Regulation on the Audit Commission, it audits the Company’s financial and business operations and formulates an independent opinion regarding the Company’s standing, which is provided to shareholders at the General Meeting of Shareholders along with Gazprom Neft’s annual report.

Remuneration paid to the Audit Commission members is determined by the General Meeting of Shareholders. Annual remuneration paid to the Audit Commission members in 2018 totalled ₽ 4,520 thousand.

INTERNAL AUDIT DEPARTMENT WITHIN THE INTERNAL AUDIT AND RISK MANAGEMENT DIRECTORATE

The internal audit function has been set up to consistently and independently assess the reliability and efficiency of the Company’s corporate governance, risk management and internal control frameworks.

In 2017, the Board of Directors approved Gazprom Neft’s Internal Audit Policy.

Gazprom Neft’s Internal Audit and Risk Management Directorate is functionally accountable to the Audit Committee of the Board of Directors and has a direct administrative reporting line to the Company’s CEO.

The key objective of the Internal Audit Department within the Internal Audit and Risk Management Directorate is to provide the Board of Directors with a systematic and consistent approach to assessing and enhancing the efficiency of corporate governance, risk management and internal control frameworks.

To do so, the Audit Commission has been given the remit to:

- establish and improve the Internal Audit Department’s operations based on standards;
- contribute to the development, launch and operation of automated internal audit management systems in the Company and coordinate relevant development efforts in the Company’s entities;
- draw up and implement the Programme to Warrant the Performance and Boost the Quality of Internal Audit approved by the Audit Committee;
- follow audits, ad hoc inspections, investigations and consultations, produce recommendations to improve the Company’s performance and eliminate gaps, bring them to the attention of relevant decision makers;
- assess the effectiveness of the Company’s anti-fraud and anti-corruption efforts;
- ensure gathering and processing of information on cases and signs of fraud and corruption via the Hotline to Report Fraud, Corruption and Other Violations of Gazprom Neft’s Corporate Code of Conduct;
- ensure completeness and timeliness of measures taken as per instructions of the Company’s management following audits.

At least on a semi-annual basis, the Head of the Internal Audit and Risk Management Directorate reports to the Audit Committee and the Board of Directors on the performance of the Directorate during the reporting period, and regularly provides information on other matters within the remit of the Audit Committees at in person and in absentia meetings.

Currently, the Internal Audit and Risk Management Directorate is headed by Galina Delvig.
EXTERNAL AUDITOR
In June 2018, the Annual General Meeting of Shareholders re-elected PwC Audit (PwC) as the Company’s auditor.

In 2018, the Board of Directors reviewed the performance assessment of Gazprom Neft’s external auditor. This was done based on the Russian Audit Council’s recommended approaches to determining non-cost criteria to assess audit services auditor’s approach to audit, expertise and experience, engagement of extra experts, audit timeline and big data technologies.

AUDITOR ASSESSMENT RESULTS
PwC uses a risk-oriented approach with a focus on auditing reporting areas that may contain misstatements as a result of risk exposure. Audit stages are automated within dedicated Aura software. This approach ensures adequate compliance of the audit with applicable standards and reasonable efforts to support the audit process from Gazprom Neft’s part.

The team engaged by PwC have a broad professional expertise required to audit and review as necessary. As regards various matters arising during the audit, the auditor made extensive use of international industry best practices, fully meeting Gazprom Neft’s expectations.

The audit schedule was in advance aligned with the Company’s closing schedule and included a set of measures to shorten the audit timeline through shifting to a single structured format of working documents and consistent formats for detailed testing of control procedures with Gazprom Neft.

As part of the audit, PwC used a number of big data technologies as a way to test data completeness, along with special tests to assess accounting entries while also minimising requests to provide initial documents.

To assess the external auditor’s performance, the Audit Committee studied their reports and met with their representatives, and also reviewed the management’s statements. In 2018, the Audit Committee met with the Company’s auditor four times to discuss the following:
- review of the Gazprom Neft Group’s IFRS consolidated financial statements for 2017; and 3M, 6M and 9M 2016;
- findings of Gazprom Neft’s external audit in 2017;
- selection of Gazprom Neft’s auditor for 2018;
- approaches to Gazprom Neft’s external audit, and relevant schedule and procedures for 2018;
- assessment of performance by Gazprom Neft’s external auditor for 2017;
- review of the auditor’s opinion on Gazprom Neft’s accounting (financial) statements for 2017 issued by PwC;
- implementation of the recommendations of Gazprom Neft’s external auditor following the 2017 results audit;
- external auditor’s fee for 2018.

The Board of Directors determined external auditor’s fee for auditing Gazprom Neft’s financial (accounting) statements for 2018 as ₽38,195 thousand (net of VAT), including:
- ₽6,600 thousand for auditing Gazprom Neft’s statements in accordance with the Russian Accounting Standards (RAS);
- ₽32,925 thousand for auditing consolidated statements in accordance with the International Financial Reporting Standards.

PwC auditing Gazprom Neft’s financial statements in accordance with the International Financial Reporting Standards and the Russian Accounting Standards only provides the Company with audit services. PricewaterhouseCoopers Advisory provides the Gazprom Neft Group with consultancy services bearing no relation to accounting and financial reporting. So, the auditor meets the independence criteria:
- consultancy services are provided by an organisation other than Gazprom Neft’s auditor;
- employees providing audit services are not engaged in advisory services;
- revenue per client is within the permitted amounts.

MANAGEMENT OF POTENTIAL CONFLICTS OF INTEREST
The Company is committed to balancing the interests of its shareholders and management interacting with a high level of trust, business culture and ethics. The Company’s majority shareholder has enough votes to resolve on many matters falling within the remit of the General Meeting of Shareholders and to appoint the Board of Directors. Nonetheless, the Company makes efforts to decrease risks related to governance, where most of the share capital is held by a single shareholder.

The ownership structure is transparent. Rights and obligations of shareholders along with the procedure to exercise ownership rights are clearly specified in the Company’s Charter and by-laws, with the information being publicly accessible. The Company ensures equality of shareholder voting rights and provides relevant protection mechanisms specified in the by-laws.

Key conflict prevention measures at a shareholder level:
- observing the decision making procedure as regards the most material matters;
- observing the procedures for voting and interested-party transaction exposure;
- engaging independent and well-recognised appraisers to determine the value exposed property under interested-party transactions;
- ensuring maximum transparency and information disclosure when arranging and holding General Meetings of Shareholders;
- timely disclosing the Board of Directors’ resolutions;
- disclosing information on related-party transactions. As per the Company’s financial statements for 2018, related-party transactions were entered into in the ordinary course of business and had clear economic rationales. Most frequent transactions included sale and purchase of crude oil, gas and petroleum products;
- engaging a Big Four company as an external auditor;
- providing for anti-dilution protection mechanisms. Contractor selection procedures with respect to procurement of goods, works and services comply with the Company’s approved standards favouring open competitive procedures, providing shareholders with reasonable assurance that the procurement process is duly controlled and Gazprom Neft’s assets are used effectively and efficiently. In addition, this practice is included in the Company’s by-laws ensuring its continuity in the future.

Gazprom Neft has put in place by-laws (the Corporate Code of Conduct and the Corporate Governance Code) setting out values and principles underpinning the Company’s corporate culture. The Corporate Code of Conduct covers situations of potential conflict of interest: acceptance of gifts, use of the Company’s assets and resources, stakeholder engagement and social responsibility, use of confidential information, activities of the Corporate Culture and Ethics Working Committee and operation of the hotline to report fraud and corruption.

Gazprom Neft has established the Corporate Culture and Ethics Working Committee to ensure compliance with the Corporate Code of Conduct. The Corporate Culture and Ethics Working Committee includes members of the Management Board and is headed by the Chairman of the Management Board. To complement certain provisions of the Code, the Company has approved some specific by-laws, e.g. on access to confidential information, trade secrets, HR policy and talent pool development.
The Corporate Code of Conduct defines conflict of interest, determines control areas for conflict of interest management and includes illustrative situations of potential conflict of interest. It also specifies the positions of personnel most exposed to conflicts of interest: management and heads of business units responsible for external communications on behalf of the Company.

Key control areas for conflict of interest management include:
- contractor selection and engagement;
- settlements and payments, especially involving agents/intermediaries;
- staff recruitment;
- political and public activities of employees;
- gifts and hospitality expenses.

The Code includes a provision requiring the Company’s employees to inform the management and the legal function of any and all conflicts of interest. There is a hotline, an email address and dedicated mailboxes for employees to anonymously report any violations. The Company’s hotline can be also used by third parties, including contractors. Twice a year, the Board of Directors reviews the results of hotline operation, including the statistics on messages received and processed and violations subsequently identified.

In 2018, the Extraordinary General Meeting of Shareholders approved the new version of the Regulation on the Board of Directors of Gazprom Neft, which now includes a section on identification and prevention of conflicts of interest on the Board of Directors specifying procedures to avoid the same:
- where a director has a potential conflict of interest, including personal interest in a transaction made by the Company, they shall inform the Board of Directors thereof by sending notice to the Chairman or the Secretary;
- information on a conflict of interest, including personal interest in a transaction, shall be included in the materials provided to the members of the Board of Directors at a meeting;
- where it is justified by the nature of the matter discussed or the conflict of interest involved, the Chairman of the Board of Directors may suggest that the director having the conflict of interest not be present at the discussion;
- directors and their related parties shall not accept gifts from persons promoting their interests in the decision making process or otherwise use any direct or indirect benefits offered by such persons (excluding symbolic gifts dictated by etiquette or souvenirs offered at formal events).

When hiring a member of the Management Board, the Company runs a check on them and their relatives for conflicts of interest. Pursuant to the Regulation on the Management Board, having overlapping positions in the Management Board and in governance bodies of other organisations or working on a part-time basis is subject to approval by the Board of Directors.

The Company quarterly checks information on the participation by members of the Management Board and the Board of Directors in other companies. In addition, the Company gathers and processes information on contractors’ beneficial owners under all contracts signed by Gazprom Neft and its subsidiaries. In 2018, members of Gazprom Neft’s Board of Directors and Management Board had no conflicts of interest.

ANTI-FRAUD AND ANTI-CORRUPTION POLICIES AND PROCEDURES

The framework anti-corruption regulation for the Company and its subsidiaries is the Anti-Fraud and Anti-Corruption Policy approved in 2014.

The Policy defines fraud and other terms related to fraud prevention. Based on this Policy, the Company’s senior management sets a single ethical standard of unacceptability of corruption of any type and form. The Policy outlines methods and procedures employed by the Company to combat fraud and corruption. These include a hotline, official investigations and prosecution with respect to identified cases of fraud.

Special attention is paid to corruption risks inherent to the oil industry. The Policy has a section on the Company’s business processes most exposed to fraud: interaction with government officials, acceptance and offering of gifts, hospitality expenses, philanthropy and sponsorship, financial relations with third parties.

The Anti-Fraud and Anti-Corruption Policy requires that the Company’s employees be instructed on the zero tolerance principles as regards fraud and on the fundamentals of the applicable laws.

D&O INSURANCE

Gazprom Neft has maintained liability insurance for the Group’s directors and officers since 2011. It provides protection for the Company’s directors and managers against potential third party lawsuits arising out of accidental and/or erroneous actions of the officers. The D&O policy covers legal costs incurred by directors in court and financial expenses arising from any claims lodged against directors in connection with the performance of their responsibilities.

The overall limit of the Company’s insurance coverage and extensions is € 47.6 m. Additional liability limit for independent directors is € 1.9 m. The insurance has worldwide coverage.

Gazprom Neft selects insurers based on the Company’s tender procedures. In 2018, the corporate insurance policy was provided by SOGAZ.
INFORMATION POLICY AND INFORMATION DISCLOSURE

The Company is committed to providing stakeholders, in a timely and regular manner, with all the relevant information necessary to make informed decisions on participating in the Company or performing any other action.

The Company’s information policy is implemented by the executive bodies. Compliance with the information policy is monitored by the Board of Directors.

In 2018, the Audit Committee of the Board of Directors reviewed the implementation of the Company’s information policy, focusing, among other things, on information disclosed by Gazprom Neft to third parties, including analytical and rating agencies.

The Company’s official website provides the following:

- the Charter and by-laws;
- information on the shareholding structure;
- information on the governance bodies;
- information on the auditor and registrar;
- other information to be disclosed pursuant to the applicable laws and the Company’s by-laws, including Gazprom Neft’s annual reports.

There is a dedicated webpage containing answers to most common questions of shareholders and investors, consistently updated investor calendar, five-year dividend history, key financial and operating results, contact details and other information that may be useful to shareholders and investors.

Gazprom Neft holds regular presentations and meetings of executive officers and other key managers with investors and analysts, including meetings dedicated to the disclosure of accounting (financial) statements or key investment projects and strategic development plans of the Company.

The Company’s website also provides information on subordinate organisations, listing them by type of activity and giving links to their websites, as recommended by the Russian Corporate Governance Code.

Pursuant to the Regulation on Information Disclosure, the Company’s disclosures on the Internet include releases on the website of a security market information provider (Interfax-CIDC).

A key principle of Gazprom Neft’s corporate governance is information transparency. The Company is consistently recognised as a leader in information disclosures by Russian and international awards.

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 was named the best among ₽200+ bn market cap companies and among oil and gas companies. In addition, it was recognised for its communication effectiveness. Moreover, the Company was named first by information transparency on the corporate website and second by corporate governance disclosures.

Types of disclosures in 2018

<table>
<thead>
<tr>
<th>Type of disclosure</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>On bond issues</td>
<td>7</td>
</tr>
<tr>
<td>On agendas and resolutions by the issuer’s governance bodies</td>
<td>113</td>
</tr>
<tr>
<td>On reporting disclosures of various types (quarterly reports, lists of affiliated persons, annual reports, consolidated financial statements, annual accounting statement)</td>
<td>18</td>
</tr>
<tr>
<td>On transactions made by the issuer and its subordinate organisations</td>
<td>25</td>
</tr>
<tr>
<td>On changes in shareholdings in other organisations</td>
<td>6</td>
</tr>
<tr>
<td>On yields accrued and paid on issue-grade securities</td>
<td>33</td>
</tr>
<tr>
<td>On the reorganisation/liquidation of subordinate organisations</td>
<td>14</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>240</strong></td>
</tr>
</tbody>
</table>
Risk management

**RISK MANAGEMENT SYSTEM**

Gazprom Neft’s Risk Management Policy 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.

The Company’s risk management system is based on the integration of the risk analysis and management tools into key corporate processes. Responsibility for risk management and reporting is determined in accordance with the Company’s line and functional organisational structure, with individual managers assigned to oversee specific risk areas. 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 allows the Company to designate areas of responsibility for risk management and monitor risks at all management levels. It also helps develop targeted responses to significant risks for each subsidiary and Gazprom Neft as a whole.

Risk management delivers:
- develop risk management culture in the Company to achieve common understanding of the key principles and approaches to risk management by the management and employees;
- design and implement comprehensive approach to identify and assess company-wide and specific area risks;
- promote information sharing about risks between the Company’s units and develop joint actions to manage them;
- provide regular risk updates for the the Company’s management.

**Financial impact levels of the risk and distribution of responsibilities within IRMF**

**METHODOLOGY ROLL-OUT**

**EVOLUTION OF INTEGRATED RISK MANAGEMENT FRAMEWORK**

The Company’s continuously evolving Integrated Risk Management Framework includes general guidelines on quantitative risk assessment and detailed procedures for assessing the most significant risks.

As of late 2018, the IRMF covered the Company’s major assets with all new projects or acquisitions automatically included in the framework.

In 2019, the Company will continue developing regulations and procedures to analyse various significant risks and integrating risk analysis into the decision-making process. In addition, new educational programmes will be rolled out to train managers and employees in risk management tools and methods.

**To deliver on these goals, the Company has developed and adopts a single approach to risk management, which, together with the uniform risk analysis and management tools, form an integrated risk management framework [IRMF].**

The IRMF includes the following guidelines, regulations, and procedures:
- Risk management policy;
- Integrated Risk Management Framework standard;
- Risk Management Guidelines;
- additional guidelines and procedures on certain types of risks and specific risk analysis tools.

Risk management is an integral part of Gazprom Neft’s corporate environment and includes:
- introduction of a risk-oriented approach to all aspects of the Company’s operations and management;
- a comprehensive analysis of the identified risks;
- a system to monitor and control risks and risk management activities;
- awareness by all employees of the basic principles and approaches to risk management in the Company;
- proper regulatory and methodological support;
- distribution of powers and responsibility for risk management among the Company’s units.
Risks associated with geological exploration

The Company’s key strategic objective is to increase its hydrocarbon resource base both in quantitative and qualitative terms to ensure a sufficient production level, which in a large extent depends on successful geological exploration. The main risks associated with geological exploration have to do with failure to confirm the anticipated hydrocarbon reserves and the objective decline on resource base quality. A major priority for the Company is geological exploration in a variety of geographic regions, including areas with adverse climatic conditions and environmental restrictions, which often involve the risk of extra costs. The assessment is based on a number of variables and assumptions, including the following:

- comparison of the region’s historical production rates with the productivity of similar regions;
- geological data interpretation;
- government regulations and legal framework.

Licence risks

As a company engaged in the exploration and mining of mineral resources, Gazprom Neft operates based on governmental subsoil licences. These licences specify the purpose of the work type (subsoil use), geographic boundaries of the area, timeframe and terms and conditions of resource use. Under the Russian law, using subsoil resources without a licence is subject to criminal liability. In case of early withdrawal of the subsoil licence, the Company may face reputational risks and material losses related to the costs incurred to acquire the licence and develop the subsoil area, as well as lower capitalisation due to reduced resource base.

The Company has deployed an automated Subsoil Use Monitoring System, a key risk management tool featuring a risk matrix to track compliance with the main (material) terms and conditions of subsoil use. The System makes it possible to assess the current risk status on a quarterly basis at the meetings of the permanent regional commissions for subsidiary licensing. Subsidiary CEOs are responsible for maintaining subsoil licences.

1.3. Project risks

The Company works continuously to initiate and implement investment projects aimed at achieving its strategic goals, including increased hydrocarbon production and improved product quality. While implementing these projects the Company faces various risks that can potentially result in missed deadlines and higher costs. The project risks are mainly related to inadequate planning, failure to comply with the project terms and safety requirements by contractors, as well as new circumstances, including higher cost of materials and supplies, infrastructure assessment errors, and new equipment suppliers.

To address these risks, the Company makes every effort to ensure thorough planning and coordination of its investment projects. In 2016, we rolled out a risk management framework to handle potential risks associated with the preparation and implementation of major projects. This framework is based on the stage-gate approach to project management that is widely used globally and provides for risk assessment at each stage of the project. Contractor requirements are determined based on risk assessment and the regulatory environment of the country, where the project is run. In addition, the Company has deployed a project monitoring system.

1.6. HR risks

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.
### 1.5. HSE risks

Risks associated with environmental, health and safety (including fire 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).

<table>
<thead>
<tr>
<th>HSE risks</th>
<th>Risk mitigants</th>
</tr>
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</table>
| In the field of industrial safety, the Company strives to achieve the strategic Goal – Zero: no injury or illness, no harm to property and environment. | > 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 main focus areas reflected in the corporate HSE Policy Statement include: | The risk-based approach and the principle of integrating HSE risks into all key business processes of the Company underline 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 | Fundamental barrier ensuring that only competent employees have access to work. |
| Competency barrier eliminating human impact where applicable | Competency barrier ensuring that only competent employees have access to work. |
| Digital barrier management eliminating human impact where applicable | Digital barrier management eliminating human impact where applicable. |
| 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. | 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. |
| Our policy seeks to ensure compliance with Russia’s environmental regulations by investing in environmental protection, including technologies to minimise environmental footprint. The outcome of these efforts is a considerably lower probability of environmental risks. | Our policy seeks to ensure compliance with Russia’s environmental regulations by investing in environmental protection, including technologies to minimise environmental footprint. The outcome of these efforts is a considerably lower probability of environmental risks. |

### 1.6. IT, automation, and telecommunications risks

The Company is increasingly faced with the growing dependence of its main business processes on the quality of IT, automation, and telecommunications (ITAT). Along with positive effects, the growing reliance on ITAT entails elements of uncertainty and related risks (ITAT risk).

The risk-based approach and the principle of integrating ITAT 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, ITAT risks have to do with with ITAT management, operation of IT systems (primarily in the areas of production and quantitative analysis), ITAT development projects, and the risk arising from the ban on purchasing and using foreign software and ITAT equipment due to sanctions and other restrictions.

The IT, Automation and Telecommunications Department at Gazprom Neft is responsible for developing regulations and procedures for ITAT risk management activities and implements a number of measures to mitigate the impact of these risks, including:

<table>
<thead>
<tr>
<th>IT, automation, and telecommunications risks</th>
<th>Risk mitigants</th>
</tr>
</thead>
</table>
| The Company is increasingly faced with the growing dependence of its main business processes on the quality of IT, automation, and telecommunications (ITAT). | > identifying events and developments that may adversely affect the Company’s objectives;  
> analysing, assessing, and setting priorities for addressing ITAT risks;  
> designing optimal response strategy for ITAT risk management;  
> providing ongoing monitoring of ITAT risks and oversees implementation of ITAT risk management activities. |
| Along with positive effects, the growing reliance on ITAT entails elements of uncertainty and related risks (ITAT risk). | Along with positive effects, the growing reliance on ITAT entails elements of uncertainty and related risks (ITAT risk). |
| As a high-tech company Gazprom Neft places special emphasis on managing ITAT related risks. | As a high-tech company Gazprom Neft places special emphasis on managing ITAT related risks. |
| ITAT risks have to do with with ITAT management, operation of IT systems (primarily in the areas of production and quantitative analysis), ITAT development projects, and the risk arising from the ban on purchasing and using foreign software and ITAT equipment due to sanctions and other restrictions. | ITAT risks have to do with with ITAT management, operation of IT systems (primarily in the areas of production and quantitative analysis), ITAT development projects, and the risk arising from the ban on purchasing and using foreign software and ITAT equipment due to sanctions and other restrictions. |
| We constantly monitor and carefully analyse the existing and potential ITAT risks. | We constantly monitor and carefully analyse the existing and potential ITAT risks. |
| The Company is increasingly faced with the growing dependence of its main business processes on the quality of IT, automation, and telecommunications (ITAT). | The Company is increasingly faced with the growing dependence of its main business processes on the quality of IT, automation, and telecommunications (ITAT). |
| Along with positive effects, the growing reliance on ITAT entails elements of uncertainty and related risks (ITAT risk). | Along with positive effects, the growing reliance on ITAT entails elements of uncertainty and related risks (ITAT risk). |
| The risk-based approach and the principle of integrating ITAT risks into all key business processes of the Company underlie the occupational risk management ideology. | The risk-based approach and the principle of integrating ITAT 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, ITAT risks have to do with with ITAT management, operation of IT systems (primarily in the areas of production and quantitative analysis), ITAT development projects, and the risk arising from the ban on purchasing and using foreign software and ITAT equipment due to sanctions and other restrictions. | As part of the implementation of a risk-based approach, ITAT risks have to do with with ITAT management, operation of IT systems (primarily in the areas of production and quantitative analysis), ITAT development projects, and the risk arising from the ban on purchasing and using foreign software and ITAT equipment due to sanctions and other restrictions. |
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| Identifying events and developments that may adversely affect the Company’s objectives; | Identifying events and developments that may adversely affect the Company’s objectives; |
| Analysing, assessing, and setting priorities for addressing ITAT risks; | Analysing, assessing, and setting priorities for addressing ITAT risks; |
| Designing optimal response strategy for ITAT risk management; | Designing optimal response strategy for ITAT risk management; |
| Providing ongoing monitoring of ITAT risks and oversees implementation of ITAT risk management activities. | Providing ongoing monitoring of ITAT risks and oversees implementation of ITAT risk management activities. |

### 2.1. Market risks

In the course of business, Gazprom Neft uses the infrastructure of natural monopolies and other dominant market players in oil and petroleum products transportation and electricity supply. We also purchase feedstock and services from a wide range of companies. Gazprom Neft has no control over the infrastructure of these natural monopolies and other dominant market players, their tariffs, as well as prices charged by feedstock and service suppliers.

We recognise the existence of ITAT risks and seek to manage them on a consistent basis.

In managing ITAT risks, the Company seeks to increase business efficiency by anticipating the impact of ITAT risk factors and to boost the effectiveness of its ITAT risk management activities. We constantly monitor and carefully analyse the existing and potential ITAT threats.

The IT, Automation and Telecommunications Department at Gazprom Neft is responsible for developing regulations and procedures for ITAT risk management activities and implements a number of measures to mitigate the impact of these risks, including:

<table>
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</tr>
<tr>
<td>To reduce the impact of such risks, the Company implements a number of activities, including:</td>
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</tr>
<tr>
<td>&gt; long-term commodity flow planning and timely reservation of throughput for oil and petroleum products and the rolling stock required;</td>
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</tr>
<tr>
<td>&gt; optimal redistribution of commodity flows by transport mode;</td>
<td>Optimal redistribution of commodity flows by transport mode;</td>
</tr>
<tr>
<td>&gt; use of alternative and own power generation sources;</td>
<td>Use of alternative and own power generation sources;</td>
</tr>
<tr>
<td>&gt; long-term contracts with fixed volumes and prices for the term of the contract;</td>
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</tr>
<tr>
<td>&gt; use of transparent cost review formulas in long-term service contracts directly linked to market fluctuations.</td>
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</tr>
<tr>
<td>These measures help reduce to an acceptable level the risks associated with procuring products and services from monopoly suppliers, and ensure the Company’s seamless operation.</td>
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</tr>
</tbody>
</table>
Financial risks

3.1 Counterparty credit risk

Credit risk is the risk of the Group incurring financial losses due to failure of buyers or counterparties to fulfil their contractual obligations. This risk is primarily related to the Group’s receivables from buyers and the investment securities.

Trade and other receivables include a large number of counterparties operating across different industries and geographical areas. To manage the credit risk, Gazprom Neft implements a number of activities, including: assessment of counterparty credit capacity, setting individual credit limits and payment terms depending on the counterparty’s financial position, advance payment monitoring, measures to control receivables focused on specific business areas, and other initiatives.

3.2 Sanctions against Gazprom Neft imposed by the US, EU and other countries have substantially limited the range of available financing instruments for the Company.

The company effectively manages the risk associated with borrowings. Despite the sanctions from the US, EU and other countries imposed against Gazprom Neft in 2014, the Company has successfully completed its borrowing programme in 2018. Also, the company effectively manages the risk associated with borrowings.

3.3 FX risk

The foreign exchange risk primarily arises from the availability of borrowed funds denominated in currencies other than the functional currencies of the respective Group companies, which mainly include their local currencies. For example, ruble is the functional currency of the companies operating in Russia. The aforementioned borrowed funds are largely denominated in US dollar and euro.

The Group’s FX risk is substantially mitigated by its FX-denominated assets and liabilities as the current mix of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies a hedging policy to manage volatility in profit and loss with its FX-denominated cash flows.

3.4 Interest risk

The Group’s borrowings were partly raised at a floating interest rate (linked to LIBOR, EURIBOR or the Bank of Russia’s key rate), and partly at a fixed interest rate.

In an environment of lower borrowing rates, fixed interest rates may become more expensive than floating interest rates, and vice versa. The Group maintains a balanced portfolio structure, which minimises the risk of negative consequences arising from adverse changes in interest rates. In addition, the Group Treasury from time to time reviews current interest rates in the capital market, based on which hedging instruments are used, if necessary.
Risks associated with government regulation and policy

4.1 Risks of increased EU and US sanctions

Sanctions against the Russian energy sector have been imposed by the US (with amendments to sanctions regime introduced in 2017 and 2018) and EU, and a number of other countries since 2014. Tougher sanctions may adversely affect the overall situation in the industry, have impact on the Company’s specific projects and, in some cases, may result in the Company losing already gained competitive advantages.

Risks of increased EU and US sanctions

4.2 Political risks

Today, the political situation in Russia is stable, which is characterised by the stability of the federal and regional governments. Gazprom Neft is registered as a taxpayer in St Petersburg, the second largest city in Russia and the administrative centre of the North-Western Federal District, with a significant potential of natural resources, mature industry and extensive transport network. Subsidiaries of Gazprom Neft operate in the Central, North-Western, Ural, Volga, Siberian and Far Eastern federal districts.

Risks associated with foreign assets

4.3 Risks associated with foreign assets

Gazprom Neft is implementing a number of foreign projects set to expand the geography of its operations. Entry into the market of the world’s largest energy companies is associated both with the opportunity of gaining additional competitive advantages and with the risks of underestimating the economic and political environment in the countries where the Company’s assets are located, which could later result in failure to deliver on the performance targets.

4.4 Corruption risks

As the Company actively enters into new international markets, the risks of the US and UK anti-corruption laws being applicable to it aggravate.

Risks associated with government regulation and policy

4.5 Risks associated with changes in judicial practice concerning matters of the Company’s operations

In Russia’s law enforcement system, the legal positions of the highest judicial bodies such as the Constitutional Court and the Supreme Court are of utmost importance and can affect the environment, in which the Company operates.

Corruption risks

4.6 Risks associated with changes in Russia’s tax laws

The Group’s major companies are among Russia’s largest taxpayers, paying federal, regional and local taxes, including the mineral extraction tax (MET), excise tax, value added tax (VAT), corporate income tax, compulsory social security contributions, corporate property tax, and land tax.

Risks associated with government regulation and policy

In general, the Company assesses the political situation in the country as stable and believes that there are no risks of negative developments at the moment.

Political risks

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Currently, Gazprom Neft assesses the level of risks associated with foreign assets as acceptable, but cannot rule out negative developments, since the described risks are beyond the Company’s control.

Risks associated with foreign assets

Gazprom Neft’s efforts to reduce undeclared revenues include ongoing submission of tax returns reflecting current calculations.

Gazprom Neft implements the Corruption Risk Management Strategy on a permanent basis. The Company has approved the Anti-Fraud and Anti-Corruption Policy. In addition, recommendations were made to all subsidiaries of the Gazprom Neft Group for approving local policies. Knowing the key principles of and compliance with the requirements of this policy are mandatory for all Gazprom Neft employees. To control corruption risks when cooperating with external counterparties, Gazprom Neft CEO has developed and approved standard anti-corruption clauses to be included in agreements with third parties (both Russian and foreign ones). The Company also has an anti-fraud and anti-corruption hotline. When hotline operators receive messages, it triggers a mandatory internal investigation.

Corruption risks

Gazprom Neft believes that the impact of the obligations arising from such potential events on the Company will not be more significant than the impact of similar obligations on other Russian oil companies with government ownership.

Risks associated with foreign assets

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Risks associated with foreign assets

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Risks associated with government regulation and policy

The sanctions have had a negligible impact on the business and financial condition of Gazprom Neft. As a response, the Company runs a targeted import substitution programme for services and equipment. The Company has no reason to believe that the new sanctions will target it specifically, but they can have an affect certain prospective projects. Following the assessment of the impact of sanctions, the Company’s management thinks that sanctions do not affect its consolidated financial statements.

Risks associated with government regulation and policy
Gazprom Neft is a company engaged in foreign trade; hence it is exposed to risks associated with changes in the nation’s legislation in the field of foreign trade regulation, as well as the customs legislation of the Eurasian Economic Union, which regulates the establishment of procedures for moving commodities and goods across the customs border of the Eurasian Economic Union, the establishment and application of customs regimes, the establishment, introduction and charging of customs duties. As a risk, the Russian Government may change customs duty rates (both for imports and exports) on certain commodities and goods, which the Company makes foreign trade transactions, in respect of which the Company makes foreign trade transactions, both for imports and exports, on certain commodities and goods across the customs border of the Eurasian Economic Union, the establishment and application of customs regimes, the establishment, introduction and charging of customs duties.

The key negative consequences, if these risks materialise, is the establishment, introduction and charging of customs duties.

<table>
<thead>
<tr>
<th>Description</th>
<th>Risk mitigants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risks associated with changes in customs duties and regulations</td>
<td>The Company meets the requirements of the customs legislation of Russia and the Eurasian Economic Union, draws up all the documentation necessary for both exports and imports in a timely fashion.</td>
</tr>
<tr>
<td>Strategic risks</td>
<td>The Company conducts regular monitoring of market trends accounting for the threats and opportunities created by the unstable external environment while managing its project portfolio. It successfully allocates resources between major strategic projects and these ensuring a quick return on investment and supporting the ongoing sustainability of the Company. To deliver on the goals outlined in the Strategy, Gazprom Neft plans to overhaul its management framework, to effect digital, cultural, and organisational transformation of the Company. The reform will make the Company’s management framework more flexible and will facilitate the decision-making process.</td>
</tr>
<tr>
<td>Partner risks</td>
<td>The Company keeps working to engage new partners, including companies in Russia and the Asia-Pacific countries that have not imposed sanctions on offshore, Arctic, deepwater and shale projects. To this end, we hold regular meetings and talks with potential partners, including with the involvement of Russian government agencies such the Ministry of Energy, the Ministry of Foreign Affairs, and the Ministry of Economic Development of Russia.</td>
</tr>
</tbody>
</table>

Since 2014, the market of oil and petroleum products has been undergoing significant changes along with the geopolitical environment. We believe that the likelihood of volatility in the market in the short term persists. In the long run, the state of the global energy sector will depend on a wide range of factors that are hard to predict, including economic growth rates, international cooperation, innovation rate, and decarbonisation efforts. These factors determine the following key characteristics of the environment in which the Company, and the oil and gas industry as a whole, operate: oil price and consumption volumes, tax regime, access to technology, and international development opportunities.

Major changes in the external environment may affect the Company’s ability to deliver on its strategic goals.

The Company meets the requirements of the customs legislation of Russia and the Eurasian Economic Union, draws up all the documentation necessary for both exports and imports in a timely fashion.

<table>
<thead>
<tr>
<th>Description</th>
<th>Risk mitigants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risks of partner engagement</td>
<td>We are also planning to take advantage of potential new market niches by creating innovative products, to continue growing in the mature petroleum product markets, and remain a leader in Russia in terms of distribution network efficiency.</td>
</tr>
<tr>
<td>Partner risks</td>
<td>One of the key objectives set forth by the Strategy is the development of a partnership ecosystem helping the Company to enhance key competencies by engaging partners in joint development of scientific, human, and intellectual potential at all levels of interaction with the business, government, and society. By focusing on flexible decision-making, technology development, operating efficiency, and safety the Company is able to produce high performance results and deliver steady growth of its financial and economic indicators.</td>
</tr>
<tr>
<td>Strategic risks</td>
<td>The Company conducts regular monitoring of market trends accounting for the threats and opportunities created by the unstable external environment while managing its project portfolio. It successfully allocates resources between major strategic projects and these ensuring a quick return on investment and supporting the ongoing sustainability of the Company. To deliver on the goals outlined in the Strategy, Gazprom Neft plans to overhaul its management framework, to effect digital, cultural, and organisational transformation of the Company. The reform will make the Company’s management framework more flexible and will facilitate the decision-making process.</td>
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The Company conducts regular monitoring of market trends accounting for the threats and opportunities created by the unstable external environment while managing its project portfolio. It successfully allocates resources between major strategic projects and these ensuring a quick return on investment and supporting the ongoing sustainability of the Company. To deliver on the goals outlined in the Strategy, Gazprom Neft plans to overhaul its management framework, to effect digital, cultural, and organisational transformation of the Company. The reform will make the Company’s management framework more flexible and will facilitate the decision-making process. One of the key objectives set forth by the Strategy is the development of a partnership ecosystem helping the Company to enhance key competencies by engaging partners in joint development of scientific, human, and intellectual potential at all levels of interaction with the business, government, and society. By focusing on flexible decision-making, technology development, operating efficiency, and safety the Company is able to produce high performance results and deliver steady growth of its financial and economic indicators. We view our existing and soon-to-be launched assets as the key contributors to the Company’s production growth in 2020 to 2030. The remaining upstream portfolio is expected to come from new exploration areas we tap into and putting on stream unconventional and hard-to-recover reserves, including in the Bashenov, Domenic and Paleozoic formations, and Achimov deposits. The liquid hydrocarbon reserves in the Nadyr-Pur-Taz region and offshore projects will also be a major driver. We are also planning to take advantage of potential new market niches by creating innovative products, to continue growing in the mature petroleum product markets, and remain a leader in Russia in terms of distribution network efficiency.

In an unstable macroeconomic environment, engaging partners in joint projects is becoming an increasingly important and difficult task. As they drastically cut their investment budgets, potential business partners scale back their activities and put off any potential joint projects. The sanctions against the Russian energy sector that have been imposed since 2014 by the United States (with amendments to sanctions regime introduced in 2017 and 2018), the European Union, and a number of other countries create additional hurdles for any potential partnership.

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</table>

Gazprom Neft is a company engaged in foreign trade; hence it is exposed to risks associated with changes in the nation’s legislation in the field of foreign trade regulation, as well as the customs legislation of the Eurasian Economic Union, which regulates the establishment of procedures for moving commodities and goods across the customs border of the Eurasian Economic Union, the establishment and application of customs regimes, the establishment, introduction and charging of customs duties. As a risk, the Russian Government may change customs duty rates (both for imports and exports) on certain commodities and goods, which the Company makes foreign trade transactions, in respect of which the Company makes foreign trade transactions, both for imports and exports, on certain commodities and goods across the customs border of the Eurasian Economic Union, the establishment and application of customs regimes, the establishment, introduction and charging of customs duties.

The key negative consequences, if these risks materialise, is the establishment, introduction and charging of customs duties.

<table>
<thead>
<tr>
<th>Description</th>
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</tr>
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<tr>
<td>Risks associated with changes in customs duties and regulations</td>
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Obtaining insurance coverage

THE GROUP INSURES RISKS TO:
- protect the assets of the Company’s shareholders;
- comply with laws and regulations;
- secure financing to cover and manage losses;
- obtain risk assessment and mitigation advice on the insured risks;
- provide incentive and social support programmes for personnel as part of the benefits package.

To maximise efficiency in terms of the number of risks insured, the Group takes a centralised approach to risk insurance to develop and deliver a unified risk insurance strategy across the Group. To this end, mandatory insurance practices are implemented in all subsidiaries, with the latter having the opportunity to propose improvements to the Group’s existing insurance framework. The Company develops, adopts, and maintains up-to-date rules and procedures with respect to different types of insurance that reflect specific nature of the insured risks.

The Company insures and reinsures its risks exclusively at insurance companies that meet the reliability and quality requirements for risk insurance. When drafting the terms and conditions of insurance contracts, the Group actively uses retention options to allow for loss indemnification without involving the insurance company. The retention level is the amount equal to potential losses of all subsidiaries over a period of one year that reduces by 5% the ROACE calculated based on the Group’s consolidated business plan. Risks that could result in losses in excess of the retention level are subject to compulsory voluntary insurance.

The Group strictly complies with the insurance regulations in Russia and other countries where the Group companies operate and acquires all types of insurance provided for by the Russian and other host country laws. Insurance companies are selected based on the Group’s rules and procedures for counterparty selection. Most of the Company’s risks are insured by SOGAZ, Russia’s leading insurance company, while certain risks are insured with Rosgosstrakh.

The following are the Group’s main insured risks and their coverage terms in 2018:
- damage to property, including the risks of damage to equipment and machinery. For upstream subsidiaries, these risks are insured with an indemnity limit of up to € 1.25 bn per occurrence for assets on land and up to € 2 bn for assets on water, including offshore projects. For downstream subsidiaries, the indemnity limit is € 1 bn, while the amount of deductible (the portion of losses not reimbursed by the insurer) ranges from € 22 m in the upstream to € 7.2 m in the downstream;
- losses from production interruption (lost profits and fixed costs) due to property loss. The insurance covers losses of up to € 800 m for the Group’s upstream companies and up to € 700 m for the downstream. The insurance comes into effect upon the expiration of the waiting period of 70–90 days following the occurrence of property loss (waiting period deductible);
- control of well insurance to cover additional expenses incurred by the Company to regain control of a damaged well. Insurance is obtained for wells worth over € 600 m or when the deposit has abnormally high reservoir pressures and/or temperatures. Indemnity limits for this type of insurance are up to € 5.5 bn per occurrence for offshore wells and up to € 1.2 bn for onshore projects with deductibles of € 100 m and € 20 m for offshore and onshore wells, respectively;
- property losses of construction projects. Insurance is obtained for major projects worth over € 600 m for the upstream and € 500 m for the downstream companies with indemnity limits equal to the project costs, which can be as high as € 130 bn with deductibles of € 70 m;
- losses from the delay in commissioning of new construction, renovation, and restoration projects. The indemnity limits are up to € 60 bn with waiting period deductibles of 120 days;
- property loss in the process of transportation. Insurance of exported goods (oil, petroleum products, and petrochemicals) for up to € 100 m per shipment;
- damage to transport (land, water, air);
- employee health insurance and personal accident insurance. To provide employees with high-quality medical services and emergency care, the Group acquires voluntary health and personal accident insurance policies.

Various types of liability associated with damage to property, life and health of third parties, including but not limited to the following:
- comprehensive liability (to third parties, commodity producers, for pollution, to terminal owners, etc.) with extension to cover government mandated losses for environmental damage with a limit of € 500 m per occurrence;
- liability of directors and officers – with indemnity limit of € 47.6 m per occurrence;
- liability of hazardous facility owners for damages triggered by an accident at the hazardous facility;
- mandatory vehicle insurance (basic and additional insurance);
- for damage resulting from a terrorist attack at an energy facility;
- liability of tankers with indemnity limits of up to € 250 m;
- liability of charterer;
- liability of carrier;
- liability of shipowner (P&I) with a limit of up to € 3 bn;
- liability for defects affecting the safety of capital construction facilities.
INVESTOR AND SHAREHOLDER RELATIONS

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

Gazprom Neft’s share and ADR performance as at 31 December 2018

SHARE PRICE ON THE MOSCOW EXCHANGE

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing price ($)</td>
<td>346.7</td>
</tr>
<tr>
<td>Closing price ($)</td>
<td>4.99</td>
</tr>
<tr>
<td>52-week high ($P)</td>
<td>395.6</td>
</tr>
<tr>
<td>52-week low ($)</td>
<td>262.5</td>
</tr>
</tbody>
</table>

ADR PRICE ON THE LONDON STOCK EXCHANGE1

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing price ($)</td>
<td>25.0</td>
</tr>
<tr>
<td>52-week high ($)</td>
<td>30.2</td>
</tr>
<tr>
<td>52-week low ($)</td>
<td>21.3</td>
</tr>
</tbody>
</table>

ANNUAL TRADING VOLUME

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow Exchange (₽ bn)</td>
<td>23.4</td>
</tr>
<tr>
<td>London Stock Exchange (IOB system) ($ m)</td>
<td>150.4</td>
</tr>
</tbody>
</table>

MARKET CAPITALISATION ON THE MOSCOW EXCHANGE

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalisation (₽ bn)</td>
<td>1,644</td>
</tr>
<tr>
<td>Capitalisation ($)</td>
<td>23,461.93</td>
</tr>
<tr>
<td>Moscow Exchange ticker / ISIN code</td>
<td>SIBN / RU000 906,2467</td>
</tr>
<tr>
<td>Ordinary shares outstanding</td>
<td>6,741,299,639</td>
</tr>
<tr>
<td>Par value of ordinary share (₽)</td>
<td>0.0016</td>
</tr>
<tr>
<td>Authorised capital (₽)</td>
<td>7,586,079.42</td>
</tr>
<tr>
<td>Shares in free float (%)</td>
<td>4.32</td>
</tr>
<tr>
<td>ADRs outstanding</td>
<td>17,955,603</td>
</tr>
<tr>
<td>ADRs in free float (%)</td>
<td>44</td>
</tr>
<tr>
<td>Average monthly trading volume (IOB system) ($ m)</td>
<td>12.5</td>
</tr>
<tr>
<td>Average monthly trading volume on the Moscow Exchange (₽ m)</td>
<td>1,951.8</td>
</tr>
</tbody>
</table>

1 One ADR is equivalent to five ordinary shares of Gazprom Neft.
2 Converted at the exchange rate of the Bank of Russia as at 31 December 2018.

The trading volume of Gazprom Neft’s shares on the Moscow Exchange totalled ₽ 23 bn ($ 367 m) in 2018.

On 29 December 2018, as of the last trading day on the Moscow Exchange, Gazprom Neft’s closing price was ₽ 346.7 per ordinary share (up 43% vs the beginning of the year). The Company’s capitalisation stood at ₽ 1,644 bn as at 31 December 2018.

2018 saw Gazprom Neft’s rouble-denominated share price reaching an all-time high, strongly corroborative to its investment case. The Company managed to achieve a record-high shareholder value on the back of such drivers as higher hydrocarbon production, key projects going on stream, large-scale refinery upgrades, and expanding sales in premium segments.
Participation in depositary receipts programme

The Company’s American and global depositary receipts programmes continued into 2018 with its receipts trading on the OTC markets of the USA, the UK, Germany and other countries. One ADR is equivalent to five ordinary shares of Gazprom Neft. The Bank of New York Mellon is the Company’s depositary bank for its depositary receipts programmes.

At the end of 2018, the total number of ADRs issued against Gazprom Neft’s ordinary shares was 90 million accounting for 1.9% of its authorised capital. The total number of outstanding ADRs went down as ADRs were being redeemed throughout the year amidst restrictions on new ADR issuances.

In 2018, the trading volume of Gazprom Neft’s ADRs via the LSE IOB and the OTCQX totalled $ 150.4 m and $ 0.7 m, respectively. The average monthly ADR trading volume via the LSE IOB stood at $ 12.5 m.

Dividend policy

The dividend policy is a critical pillar of corporate governance which shows how the Company observes the rights of its shareholders.

Gazprom Neft’s Dividend Policy aims to ensure maximum transparency for shareholders and all stakeholders on how dividends are calculated and paid out and how the Board of Directors prepares recommendations for the General Meeting of Shareholders on the record date as well as the amount of dividends and the payout procedure.

The key principles that underlie the Company’s dividend policy are as follows:

- **Maximum transparency on how dividends are calculated and paid out.** The Dividend Policy sets out the minimum dividend amount payable on the Company’s shares, which may not be less than the greater of:
  - 15% of Gazprom Neft’s consolidated IFRS financial result; or
  - 25% of the Company’s RAS net profit.

Compliance with the applicable Russian laws, the Company’s Charter and by-laws. Dividends are payable to each and every shareholder appearing on the shareholder register as of the record date fixed by the General Meeting of Shareholders when deciding on the dividend payout. Such date shall be set not earlier than 10 days and not later than 20 days after the adoption of the resolution to pay (declare) the dividends.

Commitment to the best corporate governance practices. The Company adheres to the principle of ensuring a steady dividend growth subject to the Company’s increasing net profit. The approved Dividend Policy as well as Gazprom Neft’s dividend history are available on the Company’s website.

Dividend history

**Metric** | **2014** | **2015** | **2016** | **2017** | **2018**
--- | --- | --- | --- | --- | ---
Accrued dividend per share (₽) | 6.47 | 6.47 | 10.68 | 15.0 | 22.0
Total amount of dividends accrued per share class (₽) | 30,676,208,664 | 30,676,208,664 | 50,637,080,144 | 71,119,494,585 | 104,545,657,040
Share of IFRS net profit (%) | 25 | 28 | 25 | 28 | 35
Dividend record date | 22/06/2015 | 27/06/2016 | 26/06/2017 | 26/06/2018 | 28/12/2018
Date of the meeting of the issuer’s governing body deciding on the dividend payout, minutes date and number | 9 June 2015 | 10 June 2016 | 9 June 2017 | 9 June 2018 | 13 December 2018
Minutes No. 0101/01 dated | | | | | 19 December 2018

**Dividend yield in 2018** (%)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Gazprom Neft</th>
<th>Company 2</th>
<th>Company 3</th>
<th>Company 4</th>
<th>Company 5</th>
<th>Company 6</th>
<th>Company 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>11</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>9</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

*Based on dividends declared in 2018 and share price as at 3 January 2018. Peer companies include: Rosneft, Lukoil, Tatneft, NOVATEK, Bashneft and Surgutneftegaz.
Debt portfolio and credit ratings

**Debt Portfolio and Credit Ratings**
In the course of its operations, Gazprom Neft relies on both own funds generated as operating profit and borrowings. When determining the debt to equity ratio within its capital structure, the Company seeks to strike an optimal balance between the total cost of capital, on the one hand, and the long-term financial sustainability, on the other hand.

**Key Principles of Debt Portfolio Management**
The Company adheres to a fairly conservative debt policy. Our debt policy requires that we maintain strong financial sustainability, including such Group’s ratios as Net Debt / EBITDA and Consolidated Financial Debt / Consolidated EBITDA. Under the terms of the Company’s loan agreements, Consolidated Financial Debt / Consolidated EBITDA should not exceed 3.0. At the end of the reporting period, this ratio was well below the threshold, which is also true for the five-year period preceding the reporting date. Net Debt / EBITDA declined by 38.7% in 2018.

The reporting period saw the Company in full observance with other terms of loan agreements and bond and Eurobond offering memoranda.

To ensure information transparency, Gazprom Neft discloses on its corporate website how it manages the Group’s debt portfolio. Gazprom Neft continuously works to optimise its debt portfolio structure and profile.

In 2018, the Group took out loans and borrowings for a total of ₽365.5 bn (including short-term borrowings), including:
- follow-on bond offering for ₽10.0 bn,
- placement of local bonds for a total of ₽25.0 bn; and
- drawdown of ₽331.5 bn (including short-term borrowings) under loan agreements.

In 2018, the Group also repaid ₽361.1 bn of outstanding loans and borrowings.

As a result of the above borrowings and repayments, changes to the debt of other companies of the Gazprom Neft Group (Naftna Industrija Srbija A.D., Gazpromneft – Moscow Refinery, Gazpromneft Shipping) and the rouble revaluation of FX-denominated borrowings, the debt portfolio of the Gazprom Neft Group increased from ₽680.4 bn as at 31 December 2017 to ₽775.5 bn as at 31 December 2018. Over the same period, the Group’s net debt / EBITDA decreased drastically due to a much higher operating profit.

### Debt Portfolio Profile

In terms of maturity profile, long-term borrowings dominate the Gazprom Neft Group’s debt portfolio, with their share rising by 25 pp in 2018, which helps minimise the refinancing risk in 2019.

The Group’s FX risk is substantially mitigated by its FX-denominated assets and liabilities as the current mix of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies a hedge accounting policy to manage volatility in profit and loss with its FX-denominated cash flows. The FX risk of the Group’s debt portfolio is substantially mitigated as rouble-denominated borrowings grew to account for 54.5%.

### Debt Portfolio Structure

#### Debt Portfolio Structure by Currency (%)

<table>
<thead>
<tr>
<th>Source: Company data</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>12.12</td>
<td>10.86</td>
<td>53.62</td>
</tr>
<tr>
<td>RUB</td>
<td>73.73</td>
<td>64.98</td>
<td>39.36</td>
</tr>
<tr>
<td>EUR</td>
<td>15.76</td>
<td>15.30</td>
<td>54.47</td>
</tr>
<tr>
<td>Other</td>
<td>0.84</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

* The Messoyakha group of fields includes the Vostochno-Messoyakhsky and Zapadno-Messoyakhsky licence blocks. The licences to develop the fields are held by JSC Messoyakhaneftegaz, a 50/50 joint venture of Gazprom Neft (the project operator) and Rosneft.

* The coupon rate was the lowest one among the Company’s initial bond offering as well as the lowest one on the placement date for comparable bond maturities among Russian corporate borrowers with similar ratings (7.20% p.a.).
Gazprom Neft’s credit ratings were all investment grade or higher:
- Standard & Poor’s upgraded its rating to BBB+ with a stable outlook in February 2018, and
- Moody’s upgraded its rating to Ba2 changing the outlook to stable in February 2019.

DEBT REPAYMENT SCHEDULE
Based on Gazprom Neft’s debt repayment schedule, the Company expects to reduce its debt refinancing burden in 2019–2020.

INVESTOR AND SHAREHOLDER RELATIONS
The Company regularly holds conference calls for investors with the participation of its senior management. In addition, Gazprom Neft publishes its quarterly Management’s Discussion and Analysis of Financial Condition and Results of Operations as an appendix to the Group’s IFRS financial statements. The Databook and Databased reference guides are also published to provide more details on the Company’s operations.

Currently, Gazprom Neft’s ratings are all investment grade.
Consensus forecast for Gazprom Neft’s share price target

<table>
<thead>
<tr>
<th>Broker</th>
<th>Credit/Service</th>
<th>Date</th>
<th>Recommendation</th>
<th>TP (₽)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VTB Capital</td>
<td>Dmitry Lukashov</td>
<td>22 February 2019</td>
<td>Sell</td>
<td>308</td>
</tr>
<tr>
<td>Gazprombank</td>
<td>Evgenia Oshystiyuk</td>
<td>22 February 2019</td>
<td>Buy</td>
<td>459</td>
</tr>
<tr>
<td>Sberbank</td>
<td>Andrey Gromadin</td>
<td>22 February 2019</td>
<td>Buy</td>
<td>459</td>
</tr>
<tr>
<td>Sova Capital</td>
<td>Mitchell Jennings</td>
<td>22 February 2019</td>
<td>Buy</td>
<td>408</td>
</tr>
<tr>
<td>Alex</td>
<td>Alexander Kornilov</td>
<td>22 February 2019</td>
<td>Buy</td>
<td>446</td>
</tr>
<tr>
<td>Raiffeisen</td>
<td>Andrey Polischuk</td>
<td>22 February 2019</td>
<td>Buy</td>
<td>625</td>
</tr>
<tr>
<td>Renaissance Capital</td>
<td>Alexander Burgansky</td>
<td>22 February 2019</td>
<td>Hold</td>
<td>350</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>Heydar Mamedov</td>
<td>22 February 2019</td>
<td>Buy</td>
<td>446</td>
</tr>
</tbody>
</table>

Q&A for investors

Will Gazprom Neft increase production in 2019 vs 2018 given the OPEC+ deal and the overall market environment? How does the Company assess the OPEC+ deal?

Assuming that OPEC+ countries are supposed to cut production in 1H 2019, we thus expect to increase our own production by 2% in 2019. The exact figures will depend on the deal terms for 2H 2019.

As of now, the deal helps maintain oil prices at a sufficient level for us to implement both ongoing and prospective projects. The key is to maintain stable oil prices going forward. The fact that oil majors got united by and large to address this issue is indicative of the industry’s ability to cooperate and work towards a common goal. Indeed, the oil price predictability is not only about revenues for oil companies. It also ensures that our supply meets the future demand while guaranteeing the stability of investment cycles which take at least five years to complete across our industry.

Who can become Gazprom Neft’s partner in developing the Ayashsky license area and other new offshore fields?

In the next three years, we are going to continue exploration in offshore Sakhalin. Following exploration and appraisal, we will decide on the required financing. The evidence from global practices shows that only 10% of offshore projects are self-reliant. So, we are looking to establish mutually beneficial long-term relations with both Russian and overseas companies. However, we want our prospective partners to offer economically viable terms. If such terms prove to be less attractive than solo work, we will be developing the field on our own. For instance, we continue exploration in the Arctic on our own.

November 2018, the Board of Directors approved Gazprom Neft’s Development Strategy to 2030. What are the principles and goals of the Strategy?

The new 2030 Strategy succeeds the 2025 Strategy but rather focuses on the Company’s market positioning, improving its flexibility to external changes and transforming all of its business processes.

Our vision for 2030 is to be at the leading edge of the industry and set the pace and standards for players in Russia and globally. Our focus is on efficiency, technology and HSE.

Three high-level goals:
- world’s Top 10 public player in terms of liquid hydrocarbon production volumes;
- maximising value creation per barrel; and
- leadership by ROACE.

To achieve these goals, the Company intends to embark on transformation, including operational, digital, cultural and organisational transformation as well as the promotion of partnership ecosystems.

Is Gazprom Neft expanding its refineries? If so, when and where?

Our capex forecast is quite stable for the next two to three years. Accordingly, we expect the Company’s capex to reach ₽370–380 bn in 2019. In 2019, our investment programme will be mainly focused on the construction of production facilities at the Company’s refineries, including catalyst production, and new upstream projects.

What are your capex plans for 2019?

Our financial and operating results grow steadily making it possible to increase the dividend payout. In 9M 2018, the Company increased the dividend payout to 35% of its net profit, and we plan to maintain this ratio for the entire 2018.

The 2018 dividends per share are expected to greatly exceed those of 2017.
Gazprom Neft’s HSE strategy is committed to achieving Goal Zero: no harm to people, environment and property in working process.

Key focus areas of this effort are set out in Gazprom Neft’s HSE Policy Statement:

- Safe production based on risk analysis, mitigation and management
- Reduction of workplace injury and occupational disease rates, accident hazards and environmental impacts
- Consistent implementation of best global HSE practices

“We remain committed to the Goal – Zero mission as the HSE transformation programme is being implemented. To further reinforce the progress achieved, we are launching a series of security projects that will allow us to systematically build obstacles for unacceptable events and ensure that such events will not happen in the future. It is obvious that qualitative changes in security can only occur with developing new digital technologies, as well as increasing competences of the Company’s employees.”

Anton Gladchenko
Director of HSE Directorate

Gazprom Neft has its own HSE management system. In 2017, the Company established the Operating Management System Committee, 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.

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.

More than 80 internal experts from across the Company’s production and non-production units, Divisions and hierarchy levels (all the way through from the Corporate Centre to subsidiaries) were mobilised to help draft the occupational safety transformation programme. Their mission was to identify inconsistencies in HSE management and suggest solutions for their elimination.

The system transformation relies on a risk-based approach, with a series of PDCA (Plan-Do-Check-Act) projects developed within Gazprom Neft for its implementation.

The launch of projects to introduce a cyclical risk-focused approach to HSE management is scheduled for 2019.

SAFETY CULTURE

The Company views safety culture as an important tool in achieving the Goal Zero objective 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 number of the Company’s employees who completed HSE training exceeded 26,000. 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.
Fatal accident rate (FAR)\(^1\)

Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>FAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2.11</td>
</tr>
<tr>
<td>2015</td>
<td>2.14</td>
</tr>
<tr>
<td>2016</td>
<td>3.17</td>
</tr>
<tr>
<td>2017</td>
<td>0.77</td>
</tr>
<tr>
<td>2018</td>
<td>0.90</td>
</tr>
</tbody>
</table>

In 2018, Gazprom Neft's IT team completed an R&D project focusing on the application of cutting-edge video analysis technologies to improve road transport safety at the Company's sites. As part of the project, the researchers sought to develop a tool based on a neural network algorithm to analyse and control driver behaviour. 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.

HSE

HSE 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;
- comprehensive HSE training;
- improving safety performance.

In 2018, investments in HSE improvements stood at around ₽12 bn. In the reporting year, the Company registered one accident and 1,068 incidents at hazardous production facilities\(^2\).

The Company has a dedicated Emergency Prevention and Response System, with 236 employee and management training sessions and drills held as part of it in 2018, including 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.

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

Health Management System

Gazprom Neft is developing Health Management System in order to:
- ensure health and well-being of the Company’s employees (create safe working and living conditions at field sites and make sure there are well-equipped healthcare facilities within a reasonable distance from the Company’s sites);
- 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 those goals, the Company undertakes to:
- put in place disease prevention initiatives (including regular and in-depth medical check-ups at qualified (recommended) clinics, installation of automated systems for pre-work medical screening at health facilities, identification and control of cardiovascular disease risk groups);
- develop an emergency response framework (first medical aid and evacuation capabilities, first aid training for employees);
- assess and minimise occupational disease risks;
- promote healthy lifestyles (including vaccination, healthy living awareness campaigns, alcohol and drug abuse prevention initiatives, insurance activities).

The Company’s Health Management System for 2018-2023 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 Russia Health and Safety Week 2018.

Use of neural networks to improve HSE

In 2018, Gazprom Neft’s IT team completed an R&D project focusing on the application of cutting-edge video analysis technologies to improve road transport safety at the Company’s sites. As part of the project, the researchers sought to develop a tool based on a neural network algorithm to analyse and control driver behaviour. 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.

Life cycle: Gazprom Neft upgrades its HSE system

Safety technologies: digital platform for managing HSE Policy Statement risks

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\(^1\) Fatal accident rate (FAR) indicates the number of fatalities / total number of hours worked by all employees \(\times 100\) million

\(^2\) Including investments in health, safety (including industrial, fire and transport safety) and civil defence; excluding environmental investments.

\(^3\) 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 event and no longer regarded as incidents from the beginning of 2018.
Environmental responsibility is one of the key values included in Gazprom Neft’s Corporate Code of Conduct. In planning and managing its ongoing operations, the Company is guided by the Goal – Zero objective, seeking to reduce environmental harm to zero. 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.

Gazprom Neft uses a risk-focused approach embedded in all of its business processes to ensure environmental safety. Environmental impacts are measured at all stages of production activities and used as a mandatory input to buttress management and investment decision-making.

An ISO 14001 compliant environmental management system is the Company’s key tool in the realm of environmental protection. 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-Sakhali, Gazpromneft – Moscow Refinery, Gazpromneft – Omsk Refinery, Gazpromneft – Ryazan Bitumen Binders Plant, Omsk Lubricants Plant (subsidiary of Gazpromneft-Lubricants), Gazpromneft Moscow Lubricants Plant, Gazpromneft Shipping, and Gazprom Neft Procurement.

The Company runs a comprehensive set of environmental initiatives, as well as dedicated programmes and projects focusing on ongoing ecological issues. In 2018, environmental investments totalled ₽ 19 bn.

As part of its environmental strategy, the Company seeks to maximise engagement with stakeholders. When planning new projects, Gazprom Neft companies assess potential environmental impacts and hold public hearings to discuss relevant issues. The Company engages the expert community to develop and put in place its environmental programmes, while also promoting experience exchanges with partners and counterparties.

### Key environmental programmes of Gazprom Neft

<table>
<thead>
<tr>
<th>Focus area</th>
<th>Key programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air pollution management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>target gas programme;</td>
</tr>
<tr>
<td></td>
<td>installation of recovery and purification systems for emissions from petroleum product facilities.</td>
</tr>
<tr>
<td>Water resources management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>construction of advanced biological treatment facilities as part of the refinery upgrade exercise;</td>
</tr>
<tr>
<td></td>
<td>wastewater quality control.</td>
</tr>
<tr>
<td>Land and vegetation pollution management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Clean Territory project (corrosion diagnostics and monitoring, pipeline reconstruction and replacement);</td>
</tr>
<tr>
<td></td>
<td>reclamation of oil-contaminated lands;</td>
</tr>
<tr>
<td></td>
<td>pilot testing of technologies to reclaim saline soils.</td>
</tr>
<tr>
<td>Production waste management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>disposal / neutralisation of oil-bearing wastes;</td>
</tr>
<tr>
<td></td>
<td>ongoing disposal of drilling waste.</td>
</tr>
<tr>
<td>Biodiversity preservation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>preservation of biodiversity within the Company’s footprint;</td>
</tr>
<tr>
<td></td>
<td>preservation of biodiversity in the marine ecosystems of the Russian Arctic.</td>
</tr>
</tbody>
</table>

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

*Green Seismic is a technology to save trees from cutting at seismic exploration sites.
AIR POLLUTION MANAGEMENT
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 while also running a broad range of environmental initiatives covering the entire production chain. The 2018 increase in gross emissions was due to the active development of new exploration and production projects. That said, specific reductions remained flat y-o-y at 3.21 kg/t of fuel equivalent in produced hydrocarbons, in no small part thanks to the production upgrade and APG utilisation programmes.

GREENHOUSE GAS EMISSIONS ACCOUNTING
Gazprom Neft supports implementation of the Paris Agreement on Climate Change and supports the corporate 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 and the guidelines on measurement of such emissions.

Gazprom Neft is building a dedicated system to manage hydrocarbon regulation risks and assess and monitor greenhouse gas emissions. On top of that, the Company is implementing a programme to increase APG utilisation rates across its production assets. The programme is designed to reduce emissions while also improving the efficiency of production operations.

In line with the targets approved by the Board of Directors, the Company will be working to bring the APG utilisation rate up to at least 95% by 2020 at its assets with a well-developed gas infrastructure and by 2022 group-wide (including new assets) amid the growing production volumes. In the reporting year, the APG utilisation rate was up 2.2 pp y-o-y to 78.4%, having reached 92–99% at mature assets with a well-developed gas infrastructure since 2016.

An increase in APG flaring rates since 2016 was driven by the development of new projects, with the Company working to complete the construction of APG utilisation infrastructure at these assets. In particular, the construction is reaching its final stages at the Archniskaya group of fields, Novopetrovskaya field and the southern part of the Priobskoye field where production growth translated into higher APG flaring rates in the reporting year.

WATER RESOURCES MANAGEMENT
While developing its production and refining business, the Company also seeks to reduce water consumption, cut waste discharge, and improve environmental properties of water bodies and adjacent territories. Gazprom Neft’s key projects in this area include construction of Biosphere treatment facilities at its Moscow [completed in 2017] and Omsk (scheduled for commissioning in 2020) refineries.

The technologies used at these facilities increase wastewater treatment efficiency to 99.9% and reduce water consumption by 2.5 times.

Waste management
Gazprom Neft performs ongoing analysis and control of water resources and water protection zones in the regions of its operation. Special attention is paid to offshore projects. At the Prirazlomnaya platform, the Company engaged a team of scientists to launch a comprehensive research of water habitats and monitor key hydrological and hydrochemical metrics.

Gazprom Neft’s production waste management system is designed to ensure environmentally safe waste treatment, optimise waste flows, and mitigate associated environmental risks and costs. The Company strives to maximise waste recycling in order to reduce its environmental impact.

In 2018, waste generation totalled 1,040.16 kt.
LAND AND VEGETATION PROTECTION

Gazprom Neft reclams disturbed and contaminated lands and plots and mud pits by implementing cutting-edge pipeline monitoring and diagnostics technologies and land rehabilitation solutions based on prevalent land and climatic conditions. Ongoing control of equipment reliability and introduction of new technologies help the Company minimise the risk of soil contamination with oil or petroleum products.

In 2014, Gazprom Neft launched Clean Territory, a project aiming to boost reliability of oilfield pipelines. As part of the project, the Company performs corrosion diagnostics and monitoring, and reconstructs pipelines in an attempt to bring down the number of pipeline failures and reduce contamination areas. Annually, Gazprom Neft replaces 400 km of pipelines.

BIODIVERSITY PRESERVATION

Biodiversity preservation programmes have been rolled out across the Company’s Russian assets. In Russia’s Arctic, Gazprom Neft runs a 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.

To evaluate its impact on the Arctic ecosystems, the Company maintains an ongoing environmental monitoring within its footprint. The research conducted in 2018, including toxicological and genetic analysis of biological samples, did not reveal any major changes in the ecosystems.

Narwhal research programme

In 2018, Gazprom Neft launched a 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.

Mysteries of the narwhal

Energy consumption and efficiency

Energy efficiency in production is an important efficiency driver for the entire business of Gazprom Neft, as energy costs make up a significant part of refineries’ total operating expenses. Hence, energy efficiency must be viewed as a vital success factor in terms of both economics and environmental safety.


UPSTREAM DIVISION

The Company’s Upstream Division exceeded 2018 targets under its energy efficiency programme by 72%, with energy savings across the Division amounting to 432 m kWh (P 1,504 m). Power consumption per tonne of produced liquid, the key energy efficiency metric, continued to fall, hitting 28.39 kWh/t.

In 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 Division (purchase + generation)

<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) (GWh)</td>
<td>6,177</td>
<td>6,419</td>
<td>6,298</td>
<td>10,121</td>
<td>9,002</td>
</tr>
<tr>
<td>Y-o-y change</td>
<td>2.4%</td>
<td>4%</td>
<td>-2%</td>
<td>6%</td>
<td>-11%</td>
</tr>
<tr>
<td>Heat consumption (self-generated and purchased from third-party suppliers) (TJ)</td>
<td>1,064</td>
<td>982</td>
<td>997</td>
<td>1,603</td>
<td>1,861</td>
</tr>
<tr>
<td>Y-o-y change</td>
<td>13%</td>
<td>-4%</td>
<td>1%</td>
<td>57%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Company data

Power consumption in Upstream Division (purchase + generation)

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<tr>
<th>Metric</th>
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<td>-4%</td>
<td>1%</td>
<td>57%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Company data

* Starting from 2018, the perimeter of consolidated data includes Gazpromneft-Yamal, Messoyakhaneftegaz, Upstream Division of Gazprom Neft, Gazpromneft-Noporenneftegaz, Gazpromneft-Megionneftegaz, Gazpromneft-Yuganskneftegaz, Gazpromneft-Novy Urengoy and Gazpromneft-Wyomingneftegaz. Data for 2013 and 2014 includes power consumption only of the Company’s Russian assets. Heat consumption for 2017 includes data from Yamal, Messoyakhaneftegaz and Slavneft-Megionneftegaz, excluding 1,504 m, while heat consumption amounted to 1,524.6 TJ.

* Multiple on-site facilities designated for centralised collection, treatment and disposal of oily waste.
Power purchases\(^1\) in Downstream Division (GWh) 2014 2015 2016 2017 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Purchased Power</th>
<th>Y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3,242,649</td>
<td>-1.6%</td>
</tr>
<tr>
<td>2015</td>
<td>3,340,500</td>
<td>2.6%</td>
</tr>
<tr>
<td>2016</td>
<td>3,405,210</td>
<td>1.8%</td>
</tr>
<tr>
<td>2017</td>
<td>3,236,805</td>
<td>-4.8%</td>
</tr>
<tr>
<td>2018</td>
<td>3,395,831</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Heat purchases\(^1\) in Downstream Division (TJ) 2014 2015 2016 2017 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Purchased Heat</th>
<th>Y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>16,081,895</td>
<td>-1.8%</td>
</tr>
<tr>
<td>2015</td>
<td>16,081,895</td>
<td>2.4%</td>
</tr>
<tr>
<td>2016</td>
<td>15,816,997</td>
<td>1.8%</td>
</tr>
<tr>
<td>2017</td>
<td>15,531,129</td>
<td>-4.8%</td>
</tr>
<tr>
<td>2018</td>
<td>16,779,175</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

DOWNTOWN DIVISION

The Downstream Division’s energy savings under its energy saving and energy efficiency programme amounted to 3.3 PJ (petajoules) or 3,347 TJ (terajoules), including 170,400 Gcal of heat, 50,940 tonnes of natural fuel, and 9.3 m kWh of electric power saved by the Division’s companies. Total economic effect was ₽ 790 m.

Implemented as part of a large-scale refinery upgrade exercise launched back in 2008, the Energy Saving and Energy Efficiency Improvement Programme run at Gazprom Neft’s refineries made a significant contribution to the Group’s strong performance. At Omks Refinery, imprecise 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.

Consumption of purchased energy in Downstream Division

Gazprom Neft strives to attract and retain professionals eager to excel in what they do and grow together with the Company. We see our people as strategic partners, and our investments in them as a way to secure future success of our business.

Gazprom Neft’s HR Management Strategy for the period until 2020 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, our 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.

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 high scores in Russian and international rankings, such as Randstad Award, HeadHunter Top Employer 2018, and Universum Top 100 Russia 2018.

Our relations with employees are regulated by the Russian and international labour laws and the Company’s internal standards. Gazprom Neft guarantees equal rights for its employees and prohibits any discrimination based on ethnicity, gender, origin, age, beliefs, or any other reasons. 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 explicitly prohibits the use of child or forced labour.

In 2018, the Company’s headcount was 70,648 employees\(^2\), with 16,808 joining and 15,205 leaving the Company ever the year. A 4.1% y-o-y increase in headcount was driven by changes in the production assets’ operational programmes, growing output, and the expanding operating range of the subsidiary service providers.

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

\(^2\) Number of full-time employees as at 31 December 2018 (no records of part-time employees are kept).
PERSONNEL PROFILING

<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>Average monthly salary (₽)</td>
<td>Source: Company data</td>
<td>22,236</td>
<td>22,866</td>
<td>24,349</td>
<td>26,006</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td>34,679</td>
<td>37,574</td>
<td>38,649</td>
<td>37,891</td>
</tr>
<tr>
<td>women</td>
<td></td>
<td>22,836</td>
<td>26,288</td>
<td>24,349</td>
<td>26,006</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td>32,471</td>
<td>33,881</td>
<td>32,620</td>
<td>31,885</td>
</tr>
<tr>
<td>blue-collar employees</td>
<td></td>
<td>25,064</td>
<td>27,981</td>
<td>30,998</td>
<td>32,012</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td>14,015</td>
<td>15,004</td>
<td>14,798</td>
<td>13,798</td>
</tr>
<tr>
<td>below 30 years</td>
<td></td>
<td>32,849</td>
<td>35,615</td>
<td>38,298</td>
<td>40,227</td>
</tr>
<tr>
<td>30-50 years</td>
<td></td>
<td>32,471</td>
<td>33,881</td>
<td>32,620</td>
<td>31,885</td>
</tr>
<tr>
<td>&gt; over 50 years</td>
<td></td>
<td>10,651</td>
<td>11,443</td>
<td>9,931</td>
<td>9,883</td>
</tr>
</tbody>
</table>

Gazprom Neft seeks to make sure that all components of its remuneration system are highly competitive. The Company regularly adjusts salaries and wages in line with latest trends in the oil and gas labour market. In 2018, the average monthly salary at Gazprom Neft was ₽ 122,587, up 8.5% y-o-y.

The Company makes sure to offer its employees a balanced benefits package and competitive social security guarantees. We draft and implement our HR and social policies in collaboration with trade union organisations. Trade unions take part in negotiating changes in Gazprom Neft’s social benefits, attending meetings of HR executives and contributing to other HSE initiatives. The Company has put in place youth committees responsible for protecting the interests of young employees and onboarding of young professionals.

INCENTIVES AND SOCIAL SUPPORT

The Company’s employee incentive system is linked to Gazprom Neft’s strategic goals and seeks to provide competitive remuneration, retain and develop talent, and support career and professional growth.

In 2018, Gazprom Neft developed a cumulative employee incentive package model, including a remuneration package and social benefits along with career and professional growth opportunities. The model will help align the Company’s objectives and personal employee needs, while also setting the stage for flexible HR and business strategies.

The Company transformed the employee incentive package into a cumulative compensation model including five key financial and non-financial components: base fee, performance-based remuneration, growth opportunities, recognition of achievements, and workplace environment (including social guarantees and benefits, working conditions, and corporate culture).

Gazprom Neft seeks to make sure that all components of its remuneration system are highly competitive. The Company regularly adjusts salaries and wages in line with latest trends in the oil and gas labour market. In 2018, the average monthly salary at Gazprom Neft was ₽ 122,587, up 8.5% y-o-y.

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No significant amendments were introduced of the corporate trade union coordination board. The trade unions taking part in the meetings and onboarding of young professionals.

The Company, focusing on innovation was driven by the ambition to make a real breakthrough, while our collaborative approach came as a response to the needs of our diverse, complex and large-scale business. It takes concerted effort to produce the desired output across the board. Single-handedly, one would only be able to achieve limited individual success.”

Kirill Kravchenko
Deputy CEO
for Organisational Affairs

PERSONNEL TRAINING AND DEVELOPMENT

Gazprom Neft’s training and development system covers all of the Company’s employees and targets 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 management skill and professional expertise assessments run by the Knowledge Management Centre, Gazprom Neft’s Corporate University set up in 2016 as a single platform for bringing together all the corporate training and development activities.

Thanks to its distinctive (marketplace) business model:

- several thousand of managers and experts from Gazprom Neft have been engaged to take part in training activities;
- a broad variety of professional communities and in-house mentorship and public speaking courses are up and running;
- training programmes increasingly rely on digital technologies.

In 2018:

- 91.5% of employees received training, up 3.5% y-o-y;
- the average number of training hours per employee was 32.4;
- target programmes covered more than 13,046 employees;
- the Best in Profession contest of the Downstream Division underwent transformation from an in-house corporate event to an industry-wide competition;
- over 100 interactive and video courses were developed, including those involving chat bots, app-based microtraining and virtual reality simulations.
- Gazprom Neft’s specialised department at Omsk State Technical University saw off its first graduates, all of whom signed employment contracts with the Company.

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 career planning.

The Company runs the Step into the Future programme to ensure a sustainable supply of young blue and white collar employees that have the required professional and social competencies and share the Company’s values. In 2018, the programme saw some 1,200 university and vocational school students complete field / pre-graduation internships at the Company, with 144 students receiving corporate scholarships and 296 graduates being employed by Gazprom Neft.

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 performance assessment, with 24,574 employees having been assessed in 2018.

The Corporate University plays a key role in assessing the talent pool against the Company’s current needs by providing the required expertise. In 2018, the Downstream Division staged the first Expert Platform contest to pick the best test questions for assessing professional competencies. The contestants reviewed over 2,300 tasks covering 190 competencies. The updated test base helps conduct an annual assessment of competencies to be further used for designing individual development programmes.

PERSONNEL BREAKDOWN BY KEY ACTIVITY (EMPLOYEES) (as at 31 December 2018)

<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>Exploration &amp; Production employees</td>
<td>Source: Company data</td>
<td>70,648</td>
<td>76,400</td>
<td>82,976</td>
<td>89,776</td>
</tr>
<tr>
<td>Exploration</td>
<td></td>
<td>16,016</td>
<td>17,016</td>
<td>18,016</td>
<td>19,016</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td>1,016</td>
<td>1,016</td>
<td>1,016</td>
<td>1,016</td>
</tr>
<tr>
<td>Corporate units</td>
<td></td>
<td>15,726</td>
<td>20,162</td>
<td>24,576</td>
<td>29,016</td>
</tr>
<tr>
<td>Oil refining</td>
<td></td>
<td>12,849</td>
<td>13,849</td>
<td>14,849</td>
<td>15,849</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>11,291</td>
<td>12,291</td>
<td>13,291</td>
<td>14,291</td>
</tr>
</tbody>
</table>

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REPORT since its launch, coming on top of the leaderboard The Group’s employees have participated in the contest faced tough competition, with 300 making it to the finals for the second year running. among the mentors assisting the young leaders. while the Chairman of its Management Board figures Gazprom Neft Group is one of the contest’s key partners, and 104 named winners. number of applications filed by 227,000 managers from all over Russia and 68 other countries. The participants and representatives of the leading Russian businesses. In the 2018–2019 season, the contest received a record over Russia. an open nationwide competition for the new generation of managers. While the contestants were busy solving cases and playing business games, the expert panel assessed their competencies and managerial skills leadership, ambition, strategic thinking, teamwork, communicative skills, focus on disruption and innovation, and social responsibility). The finalists received a ₽ 1 m tuition grant, with the winners being assigned mentors from among senior government officials, heads of regions, and representatives of the leading Russian businesses. In March 2019, Soschi hosted the final round of Leaders of Russia, an open nationwide competition for the new generation of managers. While the contestants were busy solving cases and playing business games, the expert panel assessed their competencies and managerial skills. Leadership, ambition, strategic thinking, teamwork, communicative skills, focus on disruption and innovation, and social responsibility. The finalists received a ₽ 1 m tuition grant, with the winners being assigned mentors from among senior government officials, heads of regions, and representatives of the leading Russian businesses. In the 2018–2019 season, the contest received a record number of applications filed by 227,000 managers from all over Russia and 68 other countries. The participants faced tough competition, with 300 making it to the finals and 104 named winners.

Gazprom Neft Group is one of the contest’s key partners, while the Chairman of its Management Board figures among the mentors assisting the young leaders. The Group’s employees have participated in the contest since its launch, coming on top of the leaderboard for the second year running.

Leaders of Russia

₽ 1
Million
tuition grant for finalists

227+
THOUSAND APPLICATIONS
filed in the 2018–2019 season

300
PARTICIPANTS
made it to the finals

"I totally enjoyed being a mentor. The finalists are strong managers with mature leadership skills and excellent qualifications. It was therefore particularly gratifying to see several of our colleagues among the Top 100 Leaders of Russia." Alexander Dyukov Chairman of the Management Board and CEO at Gazprom Neft

2017–2018 season winners:
- Denis Demin (Gazprom Neft)
- Ivan Dobrovolsky (Gazprom Neft)
- Alexei Malulin (Gazprom Neft)
- Konstantin Pryadilov (Gazprom Neft Scientific and Research Centre)
- Tikhon Shevlev (Gazprom Neft Development)
- Dmitry Yuryev (Gazprom Neft Scientific and Research Centre)

2018–2019 season winners:
- Svetlana Golubeva (Gazpromneft-Centre)
- Anton Dianov (Gazpromneft-Aero)
- Boris Ilyayev (Gazprom Neft)
- Maxim Mnyuk (Gazprom Neft Shafil)
- Alexander Slusar (ITSK)

The Company’s production, economic, social and environmental operations contribute to sustainable development of local communities across its footprint. Gazprom Neft takes an active part in developing its regions of operation through a dedicated social investment programme.

The key goals and principles of Gazprom Neft are set out in the Regional Policy Concept, the underlying document in this area, as follows:

- supporting local economic growth to boost the regions’ competitiveness and provide a stable, predictable and favourable business environment;
- setting the stage for human capital enhancement, which includes creation of comfortable living conditions for employees, their families and local communities;
- ensuring environmental safety through initiatives to reduce man-made impact on the environment and population;
- educating stakeholders on the Company’s social activities and compliance with sustainability principles.

In 2018, the Company continued delivering on its programmes to support regional development. The lubricant import substitution programme covered three more areas – Primorye Territory, Moscow and Amur regions. This drove the number of agreements defining the share of local high-tech products (including import-substitution manufacturing) in the Company’s production processes, to 17. The programme for a countrywide supply of Gazprom Neft’s innovative bitumens expanded its scope to include seven more regions. The programme is designed to improve the quality of Russian roads and as such aims to create bitumens tailored to specific climatic and operational conditions of every region. As part of the regional development strategy and a project to set up a petrochemical cluster, the Omukh Region saw new facilities come on stream, including oil refining catalyst and needle coke production plants.

The Company’s production planning takes into account the interests of all stakeholders. In particular, the Company is fostering relations and engages in an ongoing dialogue with indigenous northern minorities (INM) residing in the regions of Gazprom Neft’s oil production operations – Khanty-Mansi – Yugra and Yamal-Nenets autonomous areas. The Company strictly observes the INM rights while developing local fields, including by staging public hearings attended by INM representatives to discuss the relevant projects. In addition, the Company provides financial aid to indigenous households and agricultural communities and supports initiatives to preserve their ethnic identity.

We make targeted social investments in projects aiming to improve people’s well-being, create comfortable living conditions and tackle specific local problems. These initiatives work best if we engage local communities to partake in transformation. With this in mind, Gazprom Neft offers both its resources and expertise by arranging a wide range of workshops, project labs and intensive training sessions. Our programmes reach out to both million-strong cities and small villages with 300 or so inhabitants.

Alexander Dyukov Deputy CEO for Corporate Communications

Leaders of Russia
grand prix

Policy On Interactions with Indigenous Northern, Siberian and Far Eastern Minorities

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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.

In 2018, the Home Towns programme saw the Company invest ₽ 6.8 bn in:
- basic social infrastructure in the regions of operation;
- comprehensive urban environment improvements;
- promoting education, culture and sports;
- supporting creative industries;
- promoting science amongst the youth.

Programme toolkit:
- social and economic partnership agreements with authorities;
- internally developed social projects;
- targeted corporate charity;
- volunteering support;
- grant competitions.

Volunteering initiatives
Our employees take an active part in volunteering initiatives. Overall, the Company saw some 4,773 employees come up with their own ideas, team up with other employees or launch their own projects, including 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.

Grant competition
This is the key vehicle harnessed to aid local activists, NGOs 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. In 2018, we staged 26 m in grant funding and helping local residents realise 118 projects.

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 furthances of these agreements, we made ₽ 4.3 bn worth of investments in social projects.

We select and run social projects 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.

Key initiatives in 2018

**GAZPROM NEFT CUP**
Gazprom Neft Cup is an international kids hockey tournament established in 2007 as the Company’s key project promoting children’s sports. It is 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 games take place at international class ice arenas, with opening ceremonies and superfinals being by no means inferior to the world’s best hockey shows. The 2018 tournament brought together 26 clubs from six countries (Belarus, Germany, Kazakhstan, Latvia, Russia and Finland).

**KUSTENDORF CLASSIC MUSIC FESTIVAL**
Every year, Serbia organises a festival of Western classical music with the globally renowned film director Emir Kusturica as its founder and key mindbloom. 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 Valery Gergiev and Denis Matsuev. The 4th festival welcomed 27 young Russian musicians from across the Company’s regions of operation.

**MAKERS OF RUSSIA**
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 Makers 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 reporting year saw over 10,000 people take Makers Academy online courses.

**ARITHMETIC PROGRESSION**
Gazprom Neft is a partner of the Chibishev 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 the reporting year, the Company offered scholarships and prizes to 60 students and four young scientists as part of the project.
The key principles underpinning Gazprom Neft’s procurement and supplier engagement policy are transparency, openness, availability of information and confidentiality. Contractors are selected using competitive and cost-effective tendering procedures.

The Company runs a supplier management system to make sure that materials and equipment suppliers meet eligibility criteria prior to admitting them to the bidding process. 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.

The Company continuously vets prospective suppliers for compliance with its requirements. The counterparty due diligence includes technical review along with the assessment of reliability, solvency and financial standing. Baseline eligibility criteria are work/service/product pricing, quality, manufacturing and delivery timeline, availability of the required technical and human resources and relevant expertise.

### MATERIALS AND EQUIPMENT PROCUREMENT IN 2018

In the reporting year, the Company received bids from 5,637 prospective suppliers, with 2,194 of them awarded contracts. The number of local (domestic) suppliers totalled 2,147 (97.9% of all contractors).

"We view equitable partnership as the central element of our contractor relations. Our goal is not to go around imposing heavy fines, but to support contractors in ensuring a high level of health and safety and make them part of our corporate safety culture. In other words, we want them to join us in pursuing Goal – Zero."

Evgeny Bulgakov
Head of Operations Management Systems Centre

### SME PARTICIPATION IN TENDERS

In 2018, Gazprom Neft Group continued championing SME engagement in its procurement processes, with 23% of all materials and equipment sourced from SMEs.

### RESPONSIBLE CONTRACTOR MANAGEMENT

Potential contractors are checked for compliance with the Company’s safety requirements in the first place, with relevant obligations subsequently formalised in contracts.

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.

With this in mind, the Company runs a corporate contractor engagement programme called Steps. This programme embraces every stage of supplier relationships, from selection to the assignment of final ratings.

Steps is a set of initiatives designed to improve safety culture, motivation and training of contractors’ staff. The reporting year saw more than 13,000 contractor employees complete dedicated training. To top it off, the Company stages annual health and safety forums for contractors and assigns them ratings to monitor their compliance with corporate safety standards and take a proactive approach to dealing with contractors that fail to show improvements. The rating system also serves as an efficient non-financial motivation tool.

"Steps programme"

```
| REVIEW AND SELECTION OF CANDIDATES |
| DRAFTING AND SIGNING OF CONTRACTS |
| SUPPLIER PERFORMANCE MANAGEMENT |
| CONTRACT CLOSURE AND FINAL RATING |
```

"Steps programme"
Independent Auditor’s Report

To the Shareholders and Board of Directors of Public Joint Stock Company Gazprom Neft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Gazprom Neft (the “Company”) and its subsidiaries (together – the “Group”) as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group’s consolidated financial statements comprise:

• the consolidated statement of financial position as at 31 December 2018;
• the consolidated statement of profit and loss and other comprehensive income for the year then ended;
• the consolidated statement of changes in equity for the year then ended;
• the consolidated statement of cash flows for the year then ended; and
• the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor’s Professional Ethics Code and Auditor’s Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

APPENDIX 1. REPORT ON AUDIT RESULTS OF THE CONSOLIDATED FINANCIAL STATEMENT FOR 2018

Our audit approach

Overview

• Overall group materiality: Russian Rubles (“RUB”) 19,900 million, which represents 2.5% of the adjusted EBITDA
• The Group has offices and operations in different countries with parent company and corporate centre located in Saint Petersburg (Russian Federation). We conducted audit work at 26 components in 3 countries.
• The group engagement team visited the following locations: Saint Petersburg, Ekaterinburg and Omsk (the Russian Federation) as well as Belgrade and Pancevo (Serbia). We also engaged PwC network offices in Serbia, the Russian Federation, Austria, Iraq and the UAE to perform audit procedures at components.
• Our audit scope addressed more than 80% of the Group’s revenues and more than 81% of the Group’s absolute value of underlying profit before tax.

Materiality

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Material misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.
Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality | RUB 10,000 million
--- | ---
How we determined it | 2.5% of the adjusted EBITDA
Rationale for the materiality benchmark applied | We chose to apply adjusted EBITDA as the benchmark for establishing the materiality level, because we believe it is most commonly used to assess the Group’s performance (see Note 39 to the consolidated financial statements). Management uses adjusted EBITDA as a means of assessing the performance of the Group’s ongoing operating activities, as it reflects the Group’s earnings trends without showing the impact of certain charges. We established materiality at 2.5%, which is within the range of acceptable quantitative materiality thresholds for profit-oriented entities in this industry.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key audit matter**

**How our audit addressed the key audit matter**

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**Revenue recognition**

Refer to Notes 2, 4 and 39 in the consolidated financial statements.

This year our focus remained on revenue recognition because of:

- the users’ ongoing attention to this financial reporting line item as a performance measure,
- its sizable amount in value terms,
- diversity in revenue streams,
- essential associated risks of material misstatement due to both fraud and error

We continued to use computer-assisted audit techniques (CAATs) for all hydrocarbons revenue transactions at corporate centre, and all revenue transactions from sales of petroleum and associated products through own retail network of petrol stations in the Russian Federation throughout the audited period. In addition, this year we expanded the scope of application of CAATs on the Group’s significant component responsible for regional petroleum products wholesale. With the help of these techniques, we performed a reconciliation of each revenue transaction with accrued accounts receivable or payment received from the counterparty covering the total revenue population.

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**Key audit matter**

- the adoption of a new accounting standard IFRS 15 “Revenue from contracts with customers” applicable since 1 January 2018.

The Group’s revenue consists of different streams, comprising mainly sales of crude oil, petroleum products, gas and other sales on domestic and international markets. The Group sells petroleum products to industrial customers via small-scale wholesale distribution channels and via the Group’s own network of retail petrol stations in the Russian Federation and abroad.

These revenue streams have different terms underlying revenue recognition such as identification of the performance obligation, timing of its satisfaction and allocated transaction price. Application of the new standard required extensive analysis of different types of contracts and contractual arrangements with customers to determine whether any changes in revenue recognition methods are needed.

Due to the same high volume of transactions, possible manual intervention, different commercial accounting systems and the interfaces of these with the accounting records, there is the potential for deliberate manipulation or error. We assessed the risk of fraud and error for each individual revenue stream and tailored audit strategy based on internal control reliance expected for all full-scope significant components audits.

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**How our audit addressed the key audit matter**

Similar to prior year, we evaluated the design and tested operating effectiveness of controls over revenue recognition across significant components. At petrol stations, we validated controls over price setting and reconciliation of data between operating and accounting systems in both quantitative and monetary terms.

We performed disaggregated analytics over remaining non-significant components not covered by CAATs and based investigation on contract details and reconciliation of inventory movement starting from production through to final sale.

Our audit plan of substantive procedures this year included the following:

- the assessment of IFRS 15 adoption by the Group and the corresponding disclosures in the consolidated financial statements;
- the verification of whether the Group was entitled to, and appropriately recognised revenue in line with the satisfaction of performance obligations;
- the detailed testing of selected operations leading to revenue recognition;
- the confirmation of selected accounts receivable balances at the year-end; and
- the verification of appropriateness of the timing of revenue recognition by comparing the dates of the satisfaction of performance obligation per contract arrangement against the corresponding dates of revenue recognition.

We performed substantive procedures for more than 80% of the Group’s revenue including all significant components.

We also tested manual journal entries posted to revenue and reconciled actual selling prices to the contractual terms as well as amounts shipped to sources shipping documents.
How our audit addressed the key audit matter

Key audit matter | How our audit addressed the key audit matter
--- | ---
Impairment assessment of group assets | We evaluated and challenged the composition of management’s future cash flow forecasts, and the process by which they were prepared, confirming validity of any changes implemented from the prior year.
We compared the current year’s actual results to the figures included in the prior year forecasts, to consider whether any forecasts included assumptions that, with hindsight, had been overly optimistic.
We used our internal valuation experts and external data from independent sources in assessing and obtaining audit evidence to support the revised assumptions used in impairment testing. The most significant assumptions relate to future oil prices, discount rates depending on Iraq’s country risk and the estimation of oil and gas reserves and future production volumes at the fields.
For the purpose of the analysis of future market prices, we used Brent crude oil quotations as per Bloomberg, IHS, Wood Mackenzie and PIRA Energy Group’s data. We also challenged the discount rate applied by assessing the cost of capital for comparable entities, as well as considering country/territory specific factors.
In relation to production volumes and oil and gas reserves, we performed reconciliation of input data to prior year amounts and information received from external experts and science and technology centre engaged with geological studies within the Group.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.
When determining our audit approach we considered materiality of the Group components for the consolidated financial statements, our risk assessment for each component, volume of evidence received from our audit procedures at the level of the Group as a whole as well as risks associated with non-significant components for which no full scope audit procedures were performed.
Based on the above we determined the nature and scope of audit procedures at the level of significant components as well as at the level of the group as a whole. We identified the following significant components where we performed full-scope audit procedures: PJSC Gazprom Neft (parent holding company; corporate centre located in Saint Petersburg, the Russian Federation), Gazprom Neft Regional Sales LLC (Russian subsidiary responsible for regional petroleum products wholesale) and Gazpromneft-Centre LLC (Russian subsidiary responsible for retail petroleum products sales), Nafta Industrija Srbije a.d. was determined as the fourth significant component where a PwC network office in Serbia performed full-scope audit procedures based on our instructions.
In addition to audit evidence obtained at the group level and the level of significant components, we performed specified procedures over selected financial line items of several not significant components. Our selection aimed to cover both oil production and refining entities as well as premium channel sales on a rotational basis. We also evaluated controls over reporting at Gazprom Neft Business Service LLC (Russian subsidiary with divisions located in Saint Petersburg, Omsk, Novosibirsk and Ekaterinburg responsible for accounting and bookkeeping services for all Russian entities) and leveraged audit evidence obtained by PwC network offices in the Russian Federation, Iraq, Austria and the UAE during statutory audits of selected components.

Other information

Management is responsible for the other information. The other information comprises "Management’s discussion and analysis of financial condition and results of operations for the three months ended December 31 and September 30, 2018 and years ended December 31, 2018 and 2017" (but does not include the consolidated financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and the PJSC Gazprom Neft Annual Report and 1st quarter 2019 Quarterly Issuer’s Report, which are expected to be made available to us after that date.
Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.
When we read the PJSC Gazprom Neft Annual Report and 1st quarter 2019 Quarterly Issuer’s Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.
Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
APPENDIX 2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Currency – ₽ millions

<table>
<thead>
<tr>
<th>Notes</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>6</td>
<td>247,585</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>8</td>
<td>847</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>7</td>
<td>129,152</td>
</tr>
<tr>
<td>Inventories</td>
<td>8</td>
<td>149,956</td>
</tr>
<tr>
<td>Current income tax prepayments</td>
<td>9</td>
<td>3,179</td>
</tr>
<tr>
<td>Other taxes receivable</td>
<td>10</td>
<td>91,929</td>
</tr>
<tr>
<td>Other current assets</td>
<td>11</td>
<td>40,483</td>
</tr>
<tr>
<td>Total current assets</td>
<td>12</td>
<td>663,129</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>11</td>
<td>2,366,069</td>
</tr>
<tr>
<td>Goodwill and other intangible assets</td>
<td>12</td>
<td>80,139</td>
</tr>
<tr>
<td>Investments in associates and joint ventures</td>
<td>13</td>
<td>328,937</td>
</tr>
<tr>
<td>Long-term trade and other receivables</td>
<td>14</td>
<td>10,345</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td>15</td>
<td>10,345</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>16</td>
<td>19,127</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>17</td>
<td>52,2</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>18</td>
<td>2,857,797</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>19</td>
<td>3,520,926</td>
</tr>
<tr>
<td><strong>LIABILITIES AND EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt and current portion of long-term debt</td>
<td>18</td>
<td>90,923</td>
</tr>
<tr>
<td>Current finance lease liabilities</td>
<td>20</td>
<td>10,923</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>20</td>
<td>301,804</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>21</td>
<td>19,127</td>
</tr>
<tr>
<td>Current income tax payable</td>
<td>22</td>
<td>52,2</td>
</tr>
<tr>
<td>Other taxes payable</td>
<td>23</td>
<td>99,085</td>
</tr>
<tr>
<td>Provisions and other accrued liabilities</td>
<td>24</td>
<td>20,043</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>25</td>
<td>562,322</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>26</td>
<td>686,535</td>
</tr>
<tr>
<td>Share capital</td>
<td>27</td>
<td>98</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>28</td>
<td>1,17</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>29</td>
<td>60,397</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>30</td>
<td>1,680,978</td>
</tr>
<tr>
<td>Other reserves</td>
<td>31</td>
<td>99,874</td>
</tr>
<tr>
<td>Equity attributable to Gazprom Neft shareholders</td>
<td>32</td>
<td>1,840,177</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>33</td>
<td>151,642</td>
</tr>
<tr>
<td>Total equity</td>
<td>34</td>
<td>1,991,819</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td>35</td>
<td>3,520,926</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these Consolidated Financial Statements.
## CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Currency – ₽ millions (except per share data)

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil, gas and petroleum products sales</td>
<td>2,418,717</td>
<td>1,870,790</td>
</tr>
<tr>
<td>Other revenue</td>
<td>70,575</td>
<td>63,799</td>
</tr>
<tr>
<td><strong>Total revenue from sales</strong></td>
<td>2,489,292</td>
<td>1,934,589</td>
</tr>
<tr>
<td><strong>Costs and other deductions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of oil, gas and petroleum products</td>
<td>(617,306)</td>
<td>(456,037)</td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>(228,618)</td>
<td>(216,530)</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(114,882)</td>
<td>(106,629)</td>
</tr>
<tr>
<td>Transportation expenses</td>
<td>(147,182)</td>
<td>(141,982)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>(175,631)</td>
<td>(140,998)</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>(1,411)</td>
<td>(963)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>(2,032,550)</td>
<td>(1,632,066)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>456,742</td>
<td>302,523</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures</td>
<td>13</td>
<td>90,704</td>
</tr>
<tr>
<td><strong>Net foreign exchange loss</strong></td>
<td>(33,558)</td>
<td>(24,269)</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td>23,380</td>
<td>22,677</td>
</tr>
<tr>
<td><strong>Profit before income tax</strong></td>
<td>480,122</td>
<td>325,200</td>
</tr>
<tr>
<td><strong>Current income tax expense</strong></td>
<td>(95,588)</td>
<td>(43,695)</td>
</tr>
<tr>
<td><strong>Deferred income tax expense</strong></td>
<td>(19,544)</td>
<td>(11,827)</td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td>(115,132)</td>
<td>(55,522)</td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td>365,993</td>
<td>269,678</td>
</tr>
<tr>
<td><strong>Other comprehensive income – may be reclassified to profit or loss</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>36,937</td>
<td>15,603</td>
</tr>
<tr>
<td>Cash flow hedge, net of tax</td>
<td>33</td>
<td>16,630</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td>402,993</td>
<td>285,378</td>
</tr>
</tbody>
</table>
# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

Currency – R millones

<table>
<thead>
<tr>
<th>Attributable to Gazprom Neft shareholders</th>
<th>Share capital</th>
<th>Treasury shares</th>
<th>Additional paid-in capital</th>
<th>Retained earnings</th>
<th>Other reserves</th>
<th>Total</th>
<th>Non-controlling interest</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 1 January 2018</td>
<td>98 (1,170)</td>
<td>62,256</td>
<td>1,431,931</td>
<td>60,142</td>
<td>1,553,257</td>
<td>105,876</td>
<td>1,659,133</td>
<td></td>
</tr>
<tr>
<td>Profit for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow hedge, net of tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transactions with shareholders, recorded in equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends to equity holders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction under common control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of non-controlling interest in subsidiaries (Note 37)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as of 31 December 2018</td>
<td>98 (1,170)</td>
<td>62,256</td>
<td>1,431,931</td>
<td>60,142</td>
<td>1,553,257</td>
<td>105,876</td>
<td>1,659,133</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these Consolidated Financial Statements.
## CONSOLIDATED STATEMENT OF CASH FLOWS

**Currency – ₽ millions**

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before income tax</td>
<td>480,122</td>
<td>325,200</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures</td>
<td>13</td>
<td>(90,704)</td>
</tr>
<tr>
<td>Net foreign exchange loss / (gain)</td>
<td>29</td>
<td>33,558</td>
</tr>
<tr>
<td>Finance income</td>
<td>30</td>
<td>(7,506)</td>
</tr>
<tr>
<td>Finance expense</td>
<td>31</td>
<td>21,476</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>11, 12</td>
<td>175,451</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>12,386</td>
<td>3,355</td>
</tr>
<tr>
<td>Operating cash flow before changes in working capital</td>
<td>624,783</td>
<td>439,319</td>
</tr>
<tr>
<td>Changes in working capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(10,661)</td>
<td>13,655</td>
</tr>
<tr>
<td>Inventories</td>
<td>(27,688)</td>
<td>(20,672)</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>(33,855)</td>
<td>(2,502)</td>
</tr>
<tr>
<td>Other assets</td>
<td>(4,097)</td>
<td>(1,752)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>51,826</td>
<td>33,002</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>13,175</td>
<td>15,400</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>11,848</td>
<td>15,418</td>
</tr>
<tr>
<td>Total effect of working capital changes</td>
<td>326</td>
<td>52,869</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(41,137)</td>
<td>(36,930)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(46,470)</td>
<td>(39,649)</td>
</tr>
<tr>
<td>Dividends received</td>
<td>20,063</td>
<td>5,551</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>537,523</td>
<td>421,700</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of subsidiaries, net of cash acquired</td>
<td>(928)</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of investments in joint ventures</td>
<td>56,692</td>
<td>10,360</td>
</tr>
<tr>
<td>Disposal of investments in joint ventures</td>
<td>-</td>
<td>476</td>
</tr>
<tr>
<td>Bank deposits placement</td>
<td>(6,446)</td>
<td>(8,443)</td>
</tr>
<tr>
<td>Repayment of bank deposits</td>
<td>(2,350)</td>
<td>2,529</td>
</tr>
<tr>
<td>Acquisition of other investments</td>
<td>(170)</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from sales of other investments</td>
<td>-</td>
<td>470</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>(143)</td>
<td>(200)</td>
</tr>
<tr>
<td>Repayment of short-term loans issued</td>
<td>218</td>
<td>33,275</td>
</tr>
<tr>
<td>Long-term loans issued</td>
<td>(984)</td>
<td>(1,875)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these Consolidated Financial Statements.

### Notes

- **Year ended 31 December 2018**
- **Year ended 31 December 2017**

- **Repayment of long-term loans issued**: 12,490, 13,048
- **Purchases of property, plant and equipment and intangible assets**: (376,547), (357,080)
- **Purchases of oil and gas licences**: (5,138), (11)
- **Proceeds from sale of property, plant and equipment, intangible assets**: 4,413, 2,210
- **Proceeds from sale of other non-current assets**: 1,794
- **Interest received**: 10,885, 9,149
- **Net cash used in investing activities**: (335,038), (312,889)
- **Cash flows from financing activities**
  - Proceeds from short-term borrowings: 642, 2,210
  - Repayment of short-term borrowings: (220), (9,207)
  - Proceeds from long-term borrowings: 364,102, 256,160
  - Repayment of long-term borrowings: (360,840), (343,697)
  - Transaction costs directly attributable to the borrowings received: (138), (260)
  - Dividends paid to Gazprom Neft shareholders: (170,774), (50,361)
  - Dividends paid to non-controlling interest: (11,864), (2,542)
  - Proceeds from sale of non-controlling interest in subsidiaries: 22,348, -
  - Repayment of finance lease liabilities: (1,579), (893)
- **Net cash used in financing activities**: (156,543), (50,521)
- **Increase in cash and cash equivalents**: 145,942, 58,290
- **Effect of foreign exchange on cash and cash equivalents**: 11,035, (1,303)
- **Cash and cash equivalents as of the beginning of the period**: 90,608, 33,621
- **Cash and cash equivalents as of the end of the period**: 247,685, 90,608

The accompanying notes are an integral part of these Consolidated Financial Statements.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Currency – ₽ millions (unless otherwise stated)

1. General

Description of business
PJSC Gazprom Neft (the “Company”) and its subsidiaries (together referred to as the “Group”) is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint stock company and was set up in accordance with Russian regulations. PJSC Gazprom ("Gazprom", a state controlled entity, the Group’s ultimate parent company, owns 95.7% of the shares in the Company).

2. Summary of significant accounting policies

Basis of preparation
The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (“IFRS”).

Subsequent events occurring after 31 December 2018 were evaluated through 20 February 2019, the date these Consolidated Financial Statements were authorised for issue.

The principal accounting policies are set out below. Apart from the accounting policies changes resulting from adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of measurement
The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, equity investments at fair value through other comprehensive income (OCI) and obligations under the Stock Appreciation Rights plan (SAR) are stated at fair value.

Foreign currency translation
The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of the reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable.

Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of consolidation
The Consolidated Financial Statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee’s returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor’s return from its involvement has the potential to vary as a result of the investee’s performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group’s interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

Business combinations
The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method of accounting and recognises identifiable assets acquired and liabilities and contingent liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management’s judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets (if shares of acquired company do not have public market price).

GOODWILL
Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“bargain purchase”) is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.
NON-CONTROLLING INTEREST
Ownership interests in the Group’s subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

DISPOSALS OF SUBSIDIARIES
When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

ACQUISITIONS FROM ENTITIES UNDER COMMON CONTROL
Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

INVESTMENTS IN ASSOCIATES
An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Consolidated Financial Statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustment for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed.

JOINT OPERATIONS AND JOINT VENTURES
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:
› its assets, including its share of any assets held jointly;
› its liabilities, including its share of any liabilities incurred jointly;
› its revenue from the sale of its share of the output arising from the joint operation;
› its share of the revenue from the sale of the output by the joint operation; and
› its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

TRANSACTIONS ELIMINATED ON CONSOLIDATION
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with non-controlling investors are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents
Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or lost from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value and carried at amortised cost as are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Non-derivative financial assets
From 1 January 2018, the Group classifies its financial assets in the following measurement categories:
› those to be measured subsequently at fair value (either through OCI or through profit or loss), and
› those to be measured at amortised cost.

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset (in the case of the financial asset not at fair value through profit or loss [FVPL]). Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Group initially recognises financial assets on trade-date (the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

For assets measured at fair value gains and losses will either be recorded in profit or loss or OCI. The classification of financial assets depends on:
› the entity’s business model for managing the financial assets and
› the contractual cash flow characteristics of the financial asset.

In particular, debt financial assets in the Group are usually held to obtain contractual cash flows that are solely payments of principal and interest. In rare cases, debt financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed.

Equity securities at initial recognition are usually accounted at FVOCI. These are strategic investments and the Group considers this classification to be more relevant.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest [SPPI].

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.
DEBT INSTRUMENTS

Subsequent measurement of debt instruments depends on the group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and that are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss if material or presented within “Other loss, net” in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. Financial assets at amortised cost comprise trade receivables, other financial assets, cash and cash equivalents.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses) and impairment expenses are presented as separate line item in the statement of profit or loss. The changes in fair value will no longer be reclassified to profit or loss when they are impaired or disposed. These assets are non-material for the Group.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises. These assets are non-material for the Group.

EQUITY INSTRUMENTS

The group subsequently measures all equity investments at fair value. Where the group’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group’s right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Other equity instruments are recognised at FVPL. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. The assets are not significant for the Group.

Accounting policies for non-derivative financial assets applied until 31 December 2017

The group had applied IFRS 9 prospectively and not restated comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group’s previous accounting policy.

Until 31 December 2017 the Group had the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group initially recognised loans and receivables on the date that they originated. All other financial assets (including assets designated as at fair value through profit or loss) were recognised initially on the trade date, which was the date that the Group became a party to the contractual provisions of the instrument.

The Group derecognised a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognised as a separate asset or liability.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset was classified at fair value through profit or loss category if it was classified as held for trading or is designated as such upon initial recognition. Financial assets at designated at fair value through profit or loss if the group invests and made purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Financial assets at fair value through profit or loss were measured at fair value, and changes therein were recognised in profit and loss.

HELD-TO-MATURITY FINANCIAL ASSETS

If the Group had the positive intent and ability to hold to maturity debt securities that were quoted in an active market, then such financial assets were classified to held-to-maturity category. Held-to-maturity financial assets were recognised initially at fair value. Subsequent to initial recognition held-to-maturity financial assets were measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity were result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

LOANS AND RECEIVABLES

Loans and receivables was a category of financial assets with fixed or determinable payments that were not quoted in an active market. Such assets were recognised initially at fair value. Subsequent to initial recognition loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses. Allowances were provided for doubtful debts based on estimates of uncollectible amounts. These estimates were based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances required the exercise of judgment and the use of assumptions.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets were non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets were recognised initially at fair value. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, were recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity was reclassified to profit and loss.

Non-derivative financial liabilities

The Group initially recognises debt securities issued, loans and borrowings on the date that they are originated (in particular, date of bond issue or receivng of cash). Financial liabilities also include bank overdrafts, trade and other payables and finance lease liabilities. These financial liabilities recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The financial liabilities are recognised initially at fair value minus (in the case of a financial liability that is not at FVTPL) transaction costs that are directly attributable to issuing the financial liability. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial liabilities previously classified in accordance with IAS 39 as financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 “Financial Instruments” are classified as financial liabilities carried at amortised cost.

Derivative financial instruments

Derivative instruments are recorded at fair value in the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.
The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

HEDGE ACCOUNTING

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (currency exchange forwards and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

INVENTORIES

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

INTANGIBLE ASSETS

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

<table>
<thead>
<tr>
<th>Intangible asset group</th>
<th>Average useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licenses and software</td>
<td>1-5 years</td>
</tr>
<tr>
<td>Land rights</td>
<td>25 years</td>
</tr>
</tbody>
</table>

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround does not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

OIL AND GAS PROPERTIES

EXPLORATION AND EVALUATION ASSETS

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies that are directly attributable to exploration activity;

Costs of carrying and retaining undeveloped properties;

Dry hole contribution;

Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a ‘field by field’ basis.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (including dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

OTHER EXPLORATION COSTS

An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licenses are classified as property, plant and equipment after transfer from exploration and evaluation assets.

DEVELOPMENT COSTS

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.
Depreciation, depletion and amortisation

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

<table>
<thead>
<tr>
<th>Asset group</th>
<th>Average useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and constructions</td>
<td>8-20 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>8-20 years</td>
</tr>
<tr>
<td>Vehicles and other equipment</td>
<td>3-10 years</td>
</tr>
</tbody>
</table>

Catalysts and reagents mainly used in the refining operations are treated as other assets.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Impairment of non-current assets

The carrying amounts of the Group’s non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the group makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash-generating units – CGUs). The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit and loss. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Impairment of non-derivative financial assets

From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and PVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk till the initial recognition.

For all trade receivables the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, in respect of credit risk see note 36 for further details.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates.

The group has the following types of financial assets that are subject to the expected credit loss model: trade receivables, debt investments carried at amortised cost and cash and cash equivalents.

ACCOUNTING POLICIES FOR NON-DERIVATIVE FINANCIAL ASSETS APPLIED UNTIL 31 DECEMBER 2017

Financial assets were assessed at each reporting date to determine whether there was any objective evidence of impairment. A financial asset was impaired if objective evidence indicates that a loss event had occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considered evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments were assessed for specific impairment. Loans and receivables and held-to-maturity investments that were not individually significant were collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost was calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses were recognised in profit and loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

Decommissioning obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

- Exploration and production: the Group’s activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

- Refined, marketing and distribution: the Group’s oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any site or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.
Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the Consolidated Financial Statements are authorised for issue are disclosed in the subsequent events note.

Earnings per share

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

Stock-based compensation

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SAR") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and other benefit obligations

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no significant employee-benefit programs requiring accrual.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group’s Consolidated Statement of Financial Position. The total lease payments are charged to profit and loss for the year on a straight-line basis over the lease term.

Recognition of revenues

Revenue is an income arising in the course of the Group’s ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

The Group recognizes Revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For these contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due. Specifically:

- For export contracts control generally passes to buyer on the border of the Russian Federation, the Group is not responsible for transportation;
- For domestic contracts control generally passes when products are dispatched or delivered to customer. When control passes on delivery to customer transportation is not considered as a distinct performance obligation. In most contracts when control passes customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due. Specifically:

  - For export contracts control generally passes to buyer on the border of the Russian Federation, the Group is not responsible for transportation;
  - For domestic contracts control generally passes when products are dispatched or delivered to customer. When control passes on delivery to customer transportation is not considered as a distinct performance obligation. In most contracts when control passes customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due.

Mineral extraction tax and excise duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Export duties

Export duties, which are charged by the government on the volumes of crude oil and petroleum products transferred abroad by the Group, are included in operating expenses.

Share capital

Share capital represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders’ meeting.

Treasurystock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.
The transaction price excludes amounts collected on behalf of third parties such as value added tax and sales related tax. The Group does not consider export duties as part of transaction price and includes expenses with regard to export duties within operating expenses.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

The contract liability balance presented as advances received at the beginning of the reporting period was short-term by nature and was recognized as revenue during the period.

The Group applies a practical expedient which allows entity not to disclose the information of its remaining performance obligations at the end of the reporting period as the performance obligation is part of a contract that has an original expected duration of less than one year.

**ACCOUNTING POLICIES FOR RECOGNITION OF REVENUES APPLIED UNTIL 31 DECEMBER 2017**

Revenues from the sales of crude oil, petroleum products, gas and all other products were recognised when deliveries were made to final customers, title passed to the customer, collection was reasonably assured, and the sales price to final customers was fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales were recognised when they are shipped to customers, which was generally when title passes. For export sales, title generally passed at the border of the Russian Federation and the Group was responsible for transportation, duties and taxes on those sales.

Revenue was recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales included revenue, export duties and sales related excise tax.

**Buy / sell transactions**

Purchases and sales under the same contract with a specific counterparty (buy / sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

**Transportation costs**

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the PJSC "AK Transneft" pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

**Other comprehensive income / loss**

All other comprehensive income / loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related income tax.

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**3. Critical accounting estimates, assumptions and judgments**

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the Management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

**Impairment of non-current assets**

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group’s business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughput, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

**Estimation of oil and gas reserves**

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on annual basis. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.
Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate recoverability in future years from known reservoirs under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

**Useful lives of property, plant and equipment**

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

**Contingencies**

Certain contingencies may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group’s Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

**Joint arrangements**

Upon adopting IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

**Leases**

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Risks include the possibilities of losses from idle capacities or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset’s economic life and of gain from appreciation in value or realization of a residual value.

Other leases are classified as operating leases. In most cases leasing of vessels under time-charter agreements are accounted for as operating leases under IAS 17 Leases.

### 4. Application of new IFRS5

The following standards or amended standards became effective for the Group from 1 January 2018:

- IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 – Revenue from Contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after 1 January 2018),
- IFRIC 22 – Foreign currency transactions and advance consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 – Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018),
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

**Impact of adoption**

The Group has adopted IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the Consolidated Financial Statements.

- IFRS 9 was adopted without restating comparative information, no significant adjustments were recognized in Consolidated Financial Statements. The changes in classification categories didn’t result in changes of presentation in Consolidated Statement of Financial Position. Consequently, the revised requirements of IFRS 7 have only been applied to the current period.
- In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for 2017 financial year.

IFRSS 15 – Revenue from contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after 1 January 2018). In summary, the following adjustments were made to amounts recognized in Consolidated Statement of Profit and Loss and Other Comprehensive Income:
5. New accounting standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and that the Group has not yet adopted. The Group’s assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). IFRS 16 will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact of adoption

The Group has set up a project team which has reviewed all of the Group’s leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group’s operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of ₽ 124 billion, see note 35. Part of these commitments relate to short-term leases and low value leases which will both be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments the Group intends to recognise lease liabilities in the expected amount of ₽ 81 billion on 1 January 2019. The amount may be corrected due to the management decision about lease terms and the finalisation of discount rate calculation.

The Group’s activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application. Right-of-use assets under time-charter agreements will be measured on transition since the commencement date. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The following other new standards and pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)
- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020)
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020)
- Definition of Material – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020)
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
6. Cash and cash equivalents
Cash and cash equivalents as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>753</td>
</tr>
<tr>
<td>Cash in bank</td>
<td>50,897</td>
</tr>
<tr>
<td>Deposits with original maturity of less than three months</td>
<td>191,827</td>
</tr>
<tr>
<td>Other cash equivalents</td>
<td>6,188</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td><strong>247,585</strong></td>
</tr>
</tbody>
</table>

7. Trade and other receivables
Trade and other receivables as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>129,520</td>
</tr>
<tr>
<td>Other financial receivables</td>
<td>2,060</td>
</tr>
<tr>
<td>Less credit loss allowance</td>
<td>2,430</td>
</tr>
<tr>
<td><strong>Total trade and other receivables</strong></td>
<td><strong>129,150</strong></td>
</tr>
</tbody>
</table>

8. Inventories
Inventories as of 31 December 2018 and 2017 consist of the following:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum products and petrochemicals</td>
<td>70,385</td>
</tr>
<tr>
<td>Crude oil and gas</td>
<td>34,601</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>27,416</td>
</tr>
<tr>
<td>Other</td>
<td>17,554</td>
</tr>
<tr>
<td><strong>Total inventory</strong></td>
<td><strong>149,956</strong></td>
</tr>
</tbody>
</table>

9. Other taxes receivable
Other taxes receivable as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax receivable</td>
<td>79,921</td>
</tr>
<tr>
<td>Prepaid custom duties</td>
<td>7,232</td>
</tr>
<tr>
<td>Other taxes prepaid</td>
<td>4,776</td>
</tr>
<tr>
<td><strong>Total other taxes receivable</strong></td>
<td><strong>91,929</strong></td>
</tr>
</tbody>
</table>

10. Other current assets
Other current assets as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances paid</td>
<td>25,191</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,662</td>
</tr>
<tr>
<td>Other assets</td>
<td>13,630</td>
</tr>
<tr>
<td><strong>Total other current assets, net</strong></td>
<td><strong>40,483</strong></td>
</tr>
</tbody>
</table>
11. Property, plant and equipment

Movements in property, plant and equipment for the years ended 31 December 2018 and 2017 are presented below:

<table>
<thead>
<tr>
<th>Cost</th>
<th>O&amp;G properties</th>
<th>Refining assets</th>
<th>Marketing and distribution</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2018</td>
<td>1,772,103</td>
<td>347,738</td>
<td>189,603</td>
<td>26,638</td>
<td>538,765</td>
<td>2,875,047</td>
</tr>
<tr>
<td>Additions</td>
<td>9,029</td>
<td>1,699</td>
<td>-</td>
<td>-</td>
<td>395,112</td>
<td>403,860</td>
</tr>
<tr>
<td>Acquisitions through business combinations</td>
<td>-</td>
<td>-</td>
<td>1,108</td>
<td>-</td>
<td>-</td>
<td>1,108</td>
</tr>
<tr>
<td>Changes in decommissioning obligations</td>
<td>8,885</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,885</td>
</tr>
<tr>
<td>Transfers</td>
<td>251,966</td>
<td>25,450</td>
<td>35,969</td>
<td>3,447</td>
<td>37,470</td>
<td>37,670</td>
</tr>
<tr>
<td>Internal movement</td>
<td>137</td>
<td>1,028</td>
<td>1,167</td>
<td>98</td>
<td>316,832</td>
<td>-</td>
</tr>
<tr>
<td>Reclassification from other non-current assets</td>
<td>1,003</td>
<td>5,160</td>
<td>602</td>
<td>13</td>
<td>2,040</td>
<td>4,738</td>
</tr>
<tr>
<td>Disposals</td>
<td>(13,841)</td>
<td>(1,987)</td>
<td>(1,865)</td>
<td>(1,329)</td>
<td>(9,623)</td>
<td>(30,195)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>72,696</td>
<td>10,067</td>
<td>10,802</td>
<td>341</td>
<td>12,894</td>
<td>106,800</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>2,084,208</td>
<td>387,099</td>
<td>237,386</td>
<td>27,658</td>
<td>655,772</td>
<td>3,392,123</td>
</tr>
</tbody>
</table>

Depreciation and impairment

<table>
<thead>
<tr>
<th>Cost</th>
<th>O&amp;G properties</th>
<th>Refining assets</th>
<th>Marketing and distribution</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2017</td>
<td>1,569,525</td>
<td>308,192</td>
<td>152,871</td>
<td>23,531</td>
<td>539,404</td>
<td>2,423,223</td>
</tr>
<tr>
<td>Additions</td>
<td>2,921</td>
<td>1,699</td>
<td>-</td>
<td>-</td>
<td>395,112</td>
<td>403,860</td>
</tr>
<tr>
<td>Changes in decommissioning obligations</td>
<td>20,152</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20,152</td>
</tr>
<tr>
<td>Capitalised borrowing costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,562</td>
<td>29,562</td>
</tr>
<tr>
<td>Transfers</td>
<td>191,205</td>
<td>30,524</td>
<td>36,120</td>
<td>3,447</td>
<td>261,432</td>
<td>-</td>
</tr>
<tr>
<td>Internal movement</td>
<td>(1,230)</td>
<td>(724)</td>
<td>(72)</td>
<td>591</td>
<td>(2,879)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>256</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>256</td>
</tr>
<tr>
<td>Internal movement</td>
<td>446</td>
<td>157</td>
<td>(44)</td>
<td>(557)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Replacement</td>
<td>4,611</td>
<td>601</td>
<td>1,110</td>
<td>1,313</td>
<td>-</td>
<td>7,635</td>
</tr>
<tr>
<td>Translation differences</td>
<td>5,011</td>
<td>(1,955)</td>
<td>(1,164)</td>
<td>(95)</td>
<td>-</td>
<td>1,797</td>
</tr>
<tr>
<td>As of 31 December 2017</td>
<td>649,937</td>
<td>105,090</td>
<td>152,871</td>
<td>23,531</td>
<td>539,404</td>
<td>822,772</td>
</tr>
</tbody>
</table>

Net book value

<table>
<thead>
<tr>
<th>Cost</th>
<th>O&amp;G properties</th>
<th>Refining assets</th>
<th>Marketing and distribution</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2017</td>
<td>1,016,385</td>
<td>219,086</td>
<td>103,819</td>
<td>17,751</td>
<td>539,404</td>
<td>2,052,276</td>
</tr>
<tr>
<td>Additions</td>
<td>26,363</td>
<td>22,283</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>48,646</td>
</tr>
<tr>
<td>Unsuccessful exploration expenditures derecognised</td>
<td>(9,532)</td>
<td>(337)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(9,869)</td>
</tr>
<tr>
<td>Transfer to proved property</td>
<td>(2,886)</td>
<td>(2,522)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(5,408)</td>
</tr>
<tr>
<td>Disposals</td>
<td>(407)</td>
<td>(160)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(567)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>6,721</td>
<td>(597)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,124</td>
</tr>
<tr>
<td>As of 31 December 2017</td>
<td>1,114,168</td>
<td>242,468</td>
<td>129,319</td>
<td>19,183</td>
<td>539,404</td>
<td>2,052,276</td>
</tr>
</tbody>
</table>

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 6% for the year ended 31 December 2018 (7% for the year ended 31 December 2017).

The information regarding Group’s exploration and evaluation assets (part of O&G properties) is presented below:

During 2018 the Group performed impairment testing and recognised impairment in relation to upstream oil and gas assets in the amount of ₽ 4.3 billion (net reversal of impairment in relation to upstream oil and gas assets in the amount of ₽ 0.3 billion was recognised for the year ended 31 December 2017). The impairment loss is included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.
The book value of these assets is equal to ₽56.6 billion and exceeded its recoverable amount. The impairment loss for these assets was recognized by the Group. Revision of the expected economic and technical performance of the assets in result of changes in exploration information, development programs, investment plans and international oil prices affected estimated value in use of these assets.

The recoverable amount was determined as the present value of estimated future cash flows using available forecasts of oil prices from globally recognised research institutions and production quantities based on reserve reports and long-term strategic plans. The pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset and amounts to 11.4% per annum in real terms.

12. Goodwill and other intangible assets

The information regarding movements in Group’s intangible assets is presented below:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Goodwill</th>
<th>Software</th>
<th>Land rights</th>
<th>Other IA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2018</td>
<td>34,100</td>
<td>33,376</td>
<td>17,611</td>
<td>17,012</td>
<td>102,099</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>5,781</td>
<td>826</td>
<td>5,307</td>
<td>11,912</td>
</tr>
<tr>
<td>Acquisitions through business combinations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>Internal movement</td>
<td>-</td>
<td>988</td>
<td>11 (799)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(273)</td>
<td>(1,727)</td>
<td>(241)</td>
<td>(2,241)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>2,947</td>
<td>1,107</td>
<td>75</td>
<td>225</td>
<td>4,206</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>37,027</td>
<td>40,679</td>
<td>16,794</td>
<td>21,583</td>
<td>116,083</td>
</tr>
<tr>
<td>Amortisation and impairment</td>
<td>As of 1 January 2018</td>
<td>(201)</td>
<td>(16,708)</td>
<td>(5,916)</td>
<td>(5,087)</td>
</tr>
<tr>
<td>Amortisation charge</td>
<td>-</td>
<td>(5,228)</td>
<td>(4%)</td>
<td>(1,543)</td>
<td>(7,427)</td>
</tr>
<tr>
<td>Internal movement</td>
<td>-</td>
<td>328</td>
<td>-</td>
<td>(328)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>369</td>
<td>359 (244)</td>
<td>-</td>
<td>482</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(33)</td>
<td>(819)</td>
<td>(31) (132)</td>
<td>(1,027)</td>
<td>-</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>(234)</td>
<td>(22,098)</td>
<td>(6,256)</td>
<td>(7,356)</td>
<td>(35,944)</td>
</tr>
<tr>
<td>Net book value</td>
<td>As of 1 January 2018</td>
<td>33,899</td>
<td>16,668</td>
<td>11,695</td>
<td>11,925</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>36,793</td>
<td>18,581</td>
<td>10,538</td>
<td>16,227</td>
<td>80,139</td>
</tr>
</tbody>
</table>

Goodwill acquired through business combination has been allocated to Upstream and Downstream in the amounts of ₽29.7 billion and ₽7.1 billion as of 31 December 2018 (₽27.0 billion and ₽6.9 billion as of 31 December 2017). Goodwill was tested for impairment and no impairment was identified.

Goodwill and other intangible assets

13. Investments in associates and joint ventures

The carrying values of the investments in associates and joint ventures as 31 December 2018 and 2017 are summarised below:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Goodwill</th>
<th>Software</th>
<th>Land rights</th>
<th>Other IA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2017</td>
<td>32,166</td>
<td>26,779</td>
<td>17,521</td>
<td>16,006</td>
<td>92,612</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>4,659</td>
<td>9</td>
<td>3,038</td>
<td>7,766</td>
</tr>
<tr>
<td>Internal movement</td>
<td>-</td>
<td>1,202</td>
<td>27 (1,229)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(68)</td>
<td>(2)</td>
<td>(90)</td>
<td>(97)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>1,996</td>
<td>606</td>
<td>56</td>
<td>97</td>
<td>2,761</td>
</tr>
<tr>
<td>As of 31 December 2017</td>
<td>34,100</td>
<td>33,376</td>
<td>17,611</td>
<td>17,012</td>
<td>102,099</td>
</tr>
<tr>
<td>Amortisation and impairment</td>
<td>As of 1 January 2017</td>
<td>(180)</td>
<td>(13,960)</td>
<td>(9,214)</td>
<td>(4,807)</td>
</tr>
<tr>
<td>Amortisation charge</td>
<td>-</td>
<td>(3,770)</td>
<td>(702)</td>
<td>(1,400)</td>
<td>(5,872)</td>
</tr>
<tr>
<td>Internal movement</td>
<td>-</td>
<td>519</td>
<td>-</td>
<td>(119)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>767</td>
<td>747</td>
<td>-</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(21)</td>
<td>(397)</td>
<td>-</td>
<td>72</td>
<td>-</td>
</tr>
<tr>
<td>As of 31 December 2017</td>
<td>(201)</td>
<td>(16,708)</td>
<td>(5,916)</td>
<td>(5,087)</td>
<td>(27,912)</td>
</tr>
<tr>
<td>Net book value</td>
<td>As of 1 January 2017</td>
<td>31,926</td>
<td>13,919</td>
<td>12,307</td>
<td>11,999</td>
</tr>
<tr>
<td>As of 31 December 2017</td>
<td>33,899</td>
<td>16,668</td>
<td>11,695</td>
<td>14,227</td>
<td>80,139</td>
</tr>
</tbody>
</table>

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation.

The total amount of dividends received from joint ventures in 2018 amounts to ₽20,028 million (₽5,531 million in 2017).

Slavneft PJSC NIK Slavneft and its subsidiaries (Slavneft) are engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and PJSC NK Rosneft.
Arcticgas

In January 2018 SeverEnergy LLC and Yamal Razvitie LLC were merged to JSC Arctic Gas Company (Arcticgas, an entity jointly controlled by the Group and PJSC NOVATEK). In March 2018 the loans issued by Gazprom Neft were converted to ordinary shares from additional share emission of Arcticgas. As result the Group’s share in Arcticgas (previously was held through SeverEnergy LLC and Yamal Razvitie LLC) increased to 50.0% as of 31 March 2018.

Arcticgas is developing the Samburgskoye, Urengoiskoe and Yaro-Yakhinskoye oil and gas condensate fields and some other small oil and gas condensate fields located in the Yamalo-Nenetsky autonomous region of the Russian Federation.

Northgas

CJSC Northgas (Northgas) is engaged in development of Severo-Urengoiskoe natural gas and oil field. The Group’s investment in Northgas is held through Gazprom Resource Northgas LLC which is controlled by the Group and owns a 50% share in Northgas. The control over Northgas is divided equally between the Group and PJSC NOVATEK.

JSC Messoyakhaneftegas (Messoyakha) is developing the Vostochno-Messoyakhskoe and Zapadno-Messoyakhskoe oil and gas condensate fields. The control over Messoyakha is divided equally between the Group and PJSC NK Rosneft.

The summarised financial information for the significant associates and joint ventures as of 31 December 2018 and 2017 and for the years ended 31 December 2018 and 2017 is presented in the tables below.

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>Slavneft</th>
<th>Arcticgas</th>
<th>Messoyakha</th>
<th>Northgas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>3,448</td>
<td>38,132</td>
<td>1</td>
<td>1,151</td>
</tr>
<tr>
<td>Other current assets</td>
<td>89,057</td>
<td>18,430</td>
<td>23,977</td>
<td>3,560</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>379,881</td>
<td>382,586</td>
<td>178,452</td>
<td>41,785</td>
</tr>
<tr>
<td>Current financial liabilities</td>
<td>(31,609)</td>
<td>(40,645)</td>
<td>(10,063)</td>
<td>(8,002)</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(30,902)</td>
<td>(11,055)</td>
<td>(8,810)</td>
<td>(83)</td>
</tr>
<tr>
<td>Non-current financial liabilities</td>
<td>(126,151)</td>
<td>(65,160)</td>
<td>(99,000)</td>
<td>(15,521)</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>(42,469)</td>
<td>(51,637)</td>
<td>(11,302)</td>
<td>(5,982)</td>
</tr>
<tr>
<td>Net assets</td>
<td>241,255</td>
<td>270,651</td>
<td>73,255</td>
<td>16,907</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>31 December 2017</th>
<th>Slavneft</th>
<th>Arcticgas</th>
<th>Messoyakha</th>
<th>Northgas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>4,153</td>
<td>8,658</td>
<td>1</td>
<td>1,151</td>
</tr>
<tr>
<td>Other current assets</td>
<td>54,479</td>
<td>133,617</td>
<td>18,654</td>
<td>3,256</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>379,881</td>
<td>259,175</td>
<td>152,469</td>
<td>54,065</td>
</tr>
<tr>
<td>Current financial liabilities</td>
<td>(34,664)</td>
<td>(67,851)</td>
<td>(6,913)</td>
<td>(6,379)</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(29,617)</td>
<td>(16,495)</td>
<td>(7,531)</td>
<td>(77)</td>
</tr>
<tr>
<td>Non-current financial liabilities</td>
<td>(182,198)</td>
<td>(91,811)</td>
<td>(11,618)</td>
<td>(21,109)</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>(41,229)</td>
<td>(52,465)</td>
<td>(9,072)</td>
<td>(4,656)</td>
</tr>
<tr>
<td>Net assets</td>
<td>241,255</td>
<td>270,651</td>
<td>73,255</td>
<td>16,907</td>
</tr>
</tbody>
</table>

Other

The aggregate carrying amount of all individually immaterial associates and joint ventures as well as the Group’s share of those associates’ and joint ventures’ profit or loss and other comprehensive income are not significant for both reporting dates and periods.

14. Joint operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development as Joint operations. Tomskneft and Salym Petroleum Development are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

15. Long-term financial assets

Long-term financial assets as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>Slavneft</th>
<th>Arcticgas</th>
<th>Mesoyakha</th>
<th>Northgas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term loans issued</td>
<td>7,866</td>
<td>27,895</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity investments at fair value through OCI</td>
<td>3,083</td>
<td>2,911</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits with original maturity more than 1 year</td>
<td>1,387</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less credit loss allowance</td>
<td>(564)</td>
<td>(674)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total long-term financial assets</td>
<td>10,345</td>
<td>31,293</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
16. Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

<table>
<thead>
<tr>
<th>As of 31 December 2018</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>3,869</td>
<td>(149,449)</td>
<td>(145,580)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(3,875)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>515</td>
<td>2,608</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>1,047</td>
<td>11,902</td>
<td>(8,855)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2,595</td>
<td>(110)</td>
<td>2,485</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>(286)</td>
<td>(3,875)</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>4,043</td>
<td>(251)</td>
<td>3,792</td>
</tr>
<tr>
<td>Tax loss carry-forwards</td>
<td>24,387</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance lease</td>
<td>5,264</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>5,002</td>
<td>(1,276)</td>
<td>3,726</td>
</tr>
<tr>
<td>Net-off</td>
<td>(27,615)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax assets / liabilities</td>
<td>19,127</td>
<td>(127,448)</td>
<td>(108,321)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As of 31 December 2017</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>4,765</td>
<td>(126,842)</td>
<td>(121,077)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1</td>
<td>(3,536)</td>
<td>(3,535)</td>
</tr>
<tr>
<td>Investments</td>
<td>358</td>
<td>(3,039)</td>
<td>18</td>
</tr>
<tr>
<td>Inventories</td>
<td>829</td>
<td>(11,349)</td>
<td>(10,520)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2,838</td>
<td>(286)</td>
<td>2,552</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>(276)</td>
<td>(276)</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>4,196</td>
<td>(24)</td>
<td>4,172</td>
</tr>
<tr>
<td>Tax loss carry-forwards</td>
<td>2,155</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance lease</td>
<td>6,646</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4,538</td>
<td>(948)</td>
<td>3,590</td>
</tr>
<tr>
<td>Net-off</td>
<td>(30,780)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax assets / liabilities</td>
<td>17,847</td>
<td>(102,583)</td>
<td>(84,736)</td>
</tr>
</tbody>
</table>

Movement in temporary differences during the period:

<table>
<thead>
<tr>
<th>As of 1 January 2018</th>
<th>Recognised in profit or loss</th>
<th>Recognised in other comprehensive income</th>
<th>Acquired/ disposed of</th>
<th>As of 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(121,077)</td>
<td>(21,073)</td>
<td>(2,679)</td>
<td>(114,515)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(3,535)</td>
<td>(360)</td>
<td></td>
<td>(2,875)</td>
</tr>
<tr>
<td>Investments</td>
<td>18</td>
<td>2,293</td>
<td>(1,805)</td>
<td>506</td>
</tr>
<tr>
<td>Inventories</td>
<td>(541)</td>
<td>(314)</td>
<td></td>
<td>(855)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2,810</td>
<td>(316)</td>
<td>96</td>
<td>2,160</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>(276)</td>
<td>(110)</td>
<td></td>
<td>(266)</td>
</tr>
<tr>
<td>Provisions</td>
<td>4,574</td>
<td>(853)</td>
<td>91</td>
<td>5,812</td>
</tr>
<tr>
<td>Tax loss carry-forwards</td>
<td>23,255</td>
<td>1,098</td>
<td>34</td>
<td>24,387</td>
</tr>
<tr>
<td>Finance lease</td>
<td>6,866</td>
<td>398</td>
<td>-</td>
<td>5,264</td>
</tr>
<tr>
<td>Other</td>
<td>3,990</td>
<td>(427)</td>
<td>162</td>
<td>3,726</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(84,716)</td>
<td>(119,564)</td>
<td>(3,911)</td>
<td>(150)</td>
<td>(108,321)</td>
</tr>
</tbody>
</table>
17. Other non-current assets
Other non-current assets are primarily comprised of advances provided on capital expenditures (₽42.8 billion and ₽69.3 billion as of 31 December 2018 and 2017, respectively).

18. Short-term debt and current portion of long-term debt
As of 31 December 2018 and 2017 the Group has short-term debt and current portion of long-term debt outstanding as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion of long-term debt</td>
<td>70,263</td>
<td>131,340</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>660</td>
<td>400</td>
</tr>
<tr>
<td>Total short-term debt and current portion of long-term debt</td>
<td>90,923</td>
<td>131,740</td>
</tr>
</tbody>
</table>

19. Trade and other payables
Accounts payable as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable</td>
<td>185,269</td>
<td>118,151</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>104,713</td>
<td>69,520</td>
</tr>
<tr>
<td>Forward contracts - cash flow hedge</td>
<td>-</td>
<td>16,758</td>
</tr>
<tr>
<td>Other accounts payable</td>
<td>15,622</td>
<td>10,009</td>
</tr>
<tr>
<td>Total trade and other payables</td>
<td>307,604</td>
<td>194,438</td>
</tr>
</tbody>
</table>

Other accounts payable are mainly represented by short-term part of liability to PJSC Gazprom for assets relating to Prirazlomnoye project.

20. Other current liabilities
Other current liabilities as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances received</td>
<td>25,599</td>
<td>21,972</td>
</tr>
<tr>
<td>Payables to employees</td>
<td>3,878</td>
<td>3,182</td>
</tr>
<tr>
<td>Other non-financial payables</td>
<td>10,033</td>
<td>7,366</td>
</tr>
<tr>
<td>Total other current liabilities</td>
<td>39,510</td>
<td>32,500</td>
</tr>
</tbody>
</table>

21. Other taxes payable
Other taxes payable as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>42,580</td>
<td>27,515</td>
</tr>
<tr>
<td>Mineral extraction tax</td>
<td>33,782</td>
<td>31,807</td>
</tr>
<tr>
<td>Excise tax</td>
<td>11,081</td>
<td>13,201</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>6,974</td>
<td>6,974</td>
</tr>
<tr>
<td>Other taxes</td>
<td>5,671</td>
<td>5,336</td>
</tr>
<tr>
<td>Total other taxes payable</td>
<td>99,085</td>
<td>86,833</td>
</tr>
</tbody>
</table>

Tax expense other than income tax expense for the years ended 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral extraction tax</td>
<td>487,492</td>
<td>329,579</td>
</tr>
<tr>
<td>Excise tax</td>
<td>126,779</td>
<td>128,229</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>22,113</td>
<td>20,433</td>
</tr>
<tr>
<td>Other taxes</td>
<td>16,000</td>
<td>14,028</td>
</tr>
<tr>
<td>Total taxes other than income tax</td>
<td>652,784</td>
<td>492,269</td>
</tr>
</tbody>
</table>
22. Provisions and other accrued liabilities

Movement in provisions and other accrued liabilities for the years ended 31 December 2018 and 2017 is below:

<table>
<thead>
<tr>
<th>Description</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decommissioning and environmental provision</td>
<td>23,611</td>
<td>24,787</td>
</tr>
<tr>
<td>Other accrued liabilities</td>
<td>181</td>
<td>15,253</td>
</tr>
<tr>
<td>Total</td>
<td>23,792</td>
<td>25,797</td>
</tr>
<tr>
<td>Short-term part</td>
<td>181</td>
<td>15,253</td>
</tr>
<tr>
<td>Long-term part</td>
<td>21,600</td>
<td>10,544</td>
</tr>
<tr>
<td>New obligation incurred</td>
<td>5,790</td>
<td>11,711</td>
</tr>
<tr>
<td>Utilisation of provision / accrual</td>
<td>(684)</td>
<td>(13,301)</td>
</tr>
<tr>
<td>Change in estimates</td>
<td>16,326</td>
<td>-</td>
</tr>
<tr>
<td>Unwind of discount</td>
<td>2,765</td>
<td>-</td>
</tr>
<tr>
<td>Translation differences</td>
<td>23</td>
<td>649</td>
</tr>
<tr>
<td>Carrying amount as of 31 December 2017</td>
<td>58,601</td>
<td>33,846</td>
</tr>
<tr>
<td>Short-term part</td>
<td>151</td>
<td>29,722</td>
</tr>
<tr>
<td>Long-term part</td>
<td>56,450</td>
<td>6,124</td>
</tr>
<tr>
<td>New obligation incurred</td>
<td>9,323</td>
<td>9,917</td>
</tr>
<tr>
<td>Utilisation of provision / accrual</td>
<td>(2,422)</td>
<td>(16,972)</td>
</tr>
<tr>
<td>Change in estimates</td>
<td>(11,857)</td>
<td>-</td>
</tr>
<tr>
<td>Unwind of discount</td>
<td>3,809</td>
<td>-</td>
</tr>
<tr>
<td>Translation differences</td>
<td>2,176</td>
<td>814</td>
</tr>
<tr>
<td>Carrying amount as of 31 December 2018</td>
<td>59,430</td>
<td>27,405</td>
</tr>
<tr>
<td>Short-term part</td>
<td>1,771</td>
<td>18,272</td>
</tr>
<tr>
<td>Long-term part</td>
<td>57,659</td>
<td>9,333</td>
</tr>
</tbody>
</table>

Change in estimates was mainly caused by revision of discount and inflation rates.

23. Long-term debt

As of 31 December 2018 and 2017 the Group has long-term outstanding debt as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>624,447</td>
<td>203,173</td>
</tr>
<tr>
<td>Loan participation notes</td>
<td>209,426</td>
<td>236,110</td>
</tr>
<tr>
<td>Bonds</td>
<td>132,719</td>
<td>143,007</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>8,261</td>
<td>7,724</td>
</tr>
<tr>
<td>Less current portion of long-term debt</td>
<td>(90,243)</td>
<td>(131,340)</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td>586,535</td>
<td>548,654</td>
</tr>
</tbody>
</table>

Bank loans

In March and September 2018 the Group performed principal repayment in the total amount of $ 614.3 million (₽ 38.9 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Mizuho) according to the payment schedule. In March and September 2018 the Group performed principal repayment in the total amount of $ 200 million (₽ 12.4 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Commerzbank) according to the payment schedule.

In January 2019 the Group borrowed ₽ 51.3 billion under long-term facility agreements due payable in January 2023. In July 2018 the Group performed pre-scheduled principal repayment in the total amount of ₽ 48.0 billion due to borrowing ₽ 48.0 billion under long-term facility agreement due payable in July 2023.

In December 2017 the Group signed several long-term facility agreements with final maturity date in December 2022 – June 2023. In June 2018 the Group performed pre-scheduled principal repayment in the total amount of ₽ 102.0 billion due to borrowing ₽ 102.0 billion under long-term facility agreement due payable in June 2023.

In September 2018 the Group borrowed ₽ 10.0 billion under long-term facility agreement with Alfa-Bank due payable in September 2023.

In first half 2015 the Group signed several long-term facility agreements with one of the Russian banks with final maturity date in August 2019. In October and November the Group performed pre-scheduled principal repayment in the total amount of ₽ 15.0 billion and ₽ 5.0 billion respectively.

In October 2018 the Group borrowed ₽ 15.0 billion under long-term facility agreement with Gazprombank due payable in October 2021.

In November 2018 the Group borrowed ₽ 5.0 billion under long-term facility agreement with Gazprombank due payable in November 2021.

In December 2018 the Group borrowed ₽ 50.0 billion under long-term facility agreements due payable in December 2023.

In December 2018 the Group borrowed ₽ 30.0 billion under long-term facility agreement with one of the Russian banks due payable in June 2021.

The loan agreements contain financial covenant that limits the Group’s ratio of “Consolidated financial indebtedness to Consolidated EBITDA”. The Group is in compliance with all covenants as of 31 December 2018 and 2017 and during the year ended 31 December 2018.

Bonds

In March 2018 the Group placed six-year Rouble Bonds (001P-06R series) with the total par value of ₽ 25.0 billion. The bonds bear interest of 7.2% per annum.

In March 2018 the Group exercised the call option on Rouble bonds (series BO-02 and BO-07) in the total amount of ₽ 25.0 billion. The bonds are fully repaid.

In April 2018 the Group exercised the put option on Rouble bonds (series 4-04) in the total amount of ₽ 9.9 billion.
In April 2013 the Group raised ₽ 30.6 billion (₽ 24.8 billion as of 31 December 2017). At the end of lease term ownership title to the vessels transfers to the Group. The lease contract also contains an option for early purchase of the assets by the Group.

The reconciliation between future minimum lease payments and their present value as of 31 December 2018 and 2017 is presented in the table below:

<table>
<thead>
<tr>
<th>Minimum lease payments</th>
<th>Present value of minimum lease payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2018 Less than one year</td>
<td>3,392</td>
</tr>
<tr>
<td>Between one and five years</td>
<td>13,792</td>
</tr>
<tr>
<td>More than five years</td>
<td>17,627</td>
</tr>
<tr>
<td>Total minimum lease payments</td>
<td>34,811</td>
</tr>
<tr>
<td>31 December 2017 Less than one year</td>
<td>2,784</td>
</tr>
<tr>
<td>Between one and five years</td>
<td>11,204</td>
</tr>
<tr>
<td>More than five years</td>
<td>17,355</td>
</tr>
<tr>
<td>Total minimum lease payments</td>
<td>31,343</td>
</tr>
</tbody>
</table>

The difference between the minimum lease payments and their present value represents future finance charges on finance lease liabilities.

Deferred consideration represents liability to PJSC Gazprom for assets relating to Prirazlomnoye project. Payments of the principal amount of the liability are presented as financing activities at line “Repayment of long-term borrowings” in Consolidated Statement of Cash Flows.

26. Share capital and treasury shares

Share capital as of 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th>Ordinary shares</th>
<th>Treasury shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares (million)</td>
<td>4,741</td>
</tr>
<tr>
<td>Authorised shares (million)</td>
<td>4,741</td>
</tr>
<tr>
<td>Par value (₽ per share)</td>
<td>0.0016</td>
</tr>
<tr>
<td>On issue as of 31 December, fully paid (₽ million)</td>
<td>8</td>
</tr>
</tbody>
</table>

The nominal value of share capital differs from its carrying value due to the effect of inflation.

Deferred consideration represents liability to PJSC Gazprom for assets relating to Prirazlomnoye project. Payments of the principal amount of the liability are presented as financing activities at line “Repayment of long-term borrowings” in Consolidated Statement of Cash Flows.

Deferred consideration represents liability to PJSC Gazprom for assets relating to Prirazlomnoye project. Payments of the principal amount of the liability are presented as financing activities at line “Repayment of long-term borrowings” in Consolidated Statement of Cash Flows.

27. Employee costs

Employee costs for the years ended 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>84,902</td>
</tr>
<tr>
<td>Other costs and compensations</td>
<td>12,269</td>
</tr>
<tr>
<td>Total employee costs</td>
<td>97,171</td>
</tr>
<tr>
<td>Social security contributions (social taxes)</td>
<td>22,113</td>
</tr>
<tr>
<td>Total employee costs (with social taxes)</td>
<td>119,284</td>
</tr>
</tbody>
</table>
28. Other loss, net
Other loss, net for the years ended 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Write-off of assets</td>
<td>(13,330)</td>
<td>(3,727)</td>
</tr>
<tr>
<td>Impairment of advances and other receivables</td>
<td>(699)</td>
<td>(345)</td>
</tr>
<tr>
<td>Penalties</td>
<td>(116)</td>
<td>595</td>
</tr>
<tr>
<td>Write-off payables</td>
<td>461</td>
<td>204</td>
</tr>
<tr>
<td>Other losses, net</td>
<td>(4,522)</td>
<td>(4,314)</td>
</tr>
<tr>
<td>Total other loss, net</td>
<td>(19,796)</td>
<td>(7,557)</td>
</tr>
</tbody>
</table>

29. Net foreign exchange loss
Net foreign exchange loss for the years ended 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange (loss) / gain on financing activities, including:</td>
<td>(72,735)</td>
<td>8,686</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>5,586</td>
<td>20,419</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>(78,341)</td>
<td>(11,730)</td>
</tr>
<tr>
<td>Net foreign exchange gain / loss on operating activities</td>
<td>(39,177)</td>
<td>(18,927)</td>
</tr>
<tr>
<td>Net foreign exchange loss</td>
<td>(133,598)</td>
<td>(24,571)</td>
</tr>
</tbody>
</table>

30. Finance income
Finance income for the years ended 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income on loans issued</td>
<td>1,512</td>
<td>7,185</td>
</tr>
<tr>
<td>Interest on cash and cash equivalents</td>
<td>5,923</td>
<td>2,886</td>
</tr>
<tr>
<td>Other financial income</td>
<td>71</td>
<td>27</td>
</tr>
<tr>
<td>Total finance income</td>
<td>7,506</td>
<td>10,098</td>
</tr>
</tbody>
</table>

31. Finance expense
Finance expense for years ended 31 December 2018 and 2017 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>69,250</td>
<td>67,373</td>
</tr>
<tr>
<td>Decommissioning provision: unwinding of discount</td>
<td>3,009</td>
<td>2,785</td>
</tr>
<tr>
<td>Less: capitalised interest</td>
<td>(21,583)</td>
<td>(22,027)</td>
</tr>
<tr>
<td>Finance expense</td>
<td>21,676</td>
<td>26,147</td>
</tr>
</tbody>
</table>

32. Income tax expense
The Group’s applicable income tax rate for the companies located in the Russian Federation is 20%.

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income tax expense</td>
<td>99,701</td>
<td>64,558</td>
</tr>
<tr>
<td>Profit before income tax excluding share of profit before tax of associates and joint ventures</td>
<td>389,418</td>
<td>279,676</td>
</tr>
<tr>
<td>Profit before income tax of associates and joint ventures</td>
<td>109,676</td>
<td>51,988</td>
</tr>
<tr>
<td>Profit before income tax</td>
<td>499,094</td>
<td>331,664</td>
</tr>
<tr>
<td>Tax at applicable domestic tax rate (20%)</td>
<td>99,819</td>
<td>66,337</td>
</tr>
<tr>
<td>Effect of tax rates in foreign jurisdictions</td>
<td>1,133</td>
<td>(388)</td>
</tr>
<tr>
<td>Difference in statutory tax rate in domestic entities</td>
<td>(9,243)</td>
<td>(2,918)</td>
</tr>
<tr>
<td>Non-deductible and deductible items (including Intragroup)</td>
<td>7,882</td>
<td>2,813</td>
</tr>
<tr>
<td>Adjustment for prior years</td>
<td>360</td>
<td>3,934</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>(1,147)</td>
<td>428</td>
</tr>
<tr>
<td>Foreign exchange (gain) / loss of foreign non-operating units</td>
<td>97</td>
<td>(22)</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>99,701</td>
<td>64,558</td>
</tr>
</tbody>
</table>
Reconciliation of effective tax rate:

<table>
<thead>
<tr>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income tax expense</td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>60,177</td>
</tr>
<tr>
<td>Adjustment for prior years</td>
<td>(592)</td>
</tr>
<tr>
<td>Deferred income tax expense</td>
<td></td>
</tr>
<tr>
<td>Origination and reversal of temporary differences</td>
<td>20,711</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>(1,676)</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>99,791</td>
</tr>
</tbody>
</table>

The accumulated foreign exchange loss will be reclassified from other comprehensive income / (loss) to profit and loss in 2022.

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

34. Financial risk management

Risk Management Framework

Gazprom Neft has a risk management policy that defines the goals and principles of risk management in order to make the Group’s business more secure in both the short and the long term.

The Group’s goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group’s Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management


In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk;
- liquidity risk.
MARKET RISK
Currency Risk
The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currencies in which these borrowings are denominated are mainly USD and EUR.

The Group’s currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies hedge accounting to manage volatility in profit and loss with its cash flows in foreign currency.

The carrying amounts of the Group’s financial instruments by currencies are denominated in are as follows:

<table>
<thead>
<tr>
<th>As of 31 December 2018</th>
<th>Russian Ruble</th>
<th>USD</th>
<th>EURO</th>
<th>Serbian dinar</th>
<th>Other currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>146,252</td>
<td>88,087</td>
<td>6,204</td>
<td>4,896</td>
<td>3,546</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans issued</td>
<td>838</td>
<td>-</td>
<td>17</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trade and other financial receivables</td>
<td>33,389</td>
<td>76,676</td>
<td>1,503</td>
<td>15,624</td>
<td>1,958</td>
</tr>
<tr>
<td>Non-current</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other financial receivables</td>
<td>901</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans issued</td>
<td>7,846</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equity investments at fair value through other comprehensive income [OCI]</td>
<td>2,423</td>
<td>-</td>
<td>66</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>FINANCIAL LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>(21,077)</td>
<td>(67,171)</td>
<td>(2,683)</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Trade and other financial payables</td>
<td>(269,489)</td>
<td>(20,452)</td>
<td>(4,944)</td>
<td>(10,387)</td>
<td>(2,332)</td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Finance lease liability</td>
<td>(38)</td>
<td>(1,742)</td>
<td>(48)</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Non-current</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>(401,315)</td>
<td>(208,617)</td>
<td>(74,633)</td>
<td>-</td>
<td>(161)</td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>(126)</td>
<td>(1,149)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Finance lease liability</td>
<td>(23)</td>
<td>(20,582)</td>
<td>(114)</td>
<td>-</td>
<td>(107)</td>
</tr>
<tr>
<td>Other non-current financial liabilities</td>
<td>(47,271)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET EXPOSURE</strong></td>
<td>(544,094)</td>
<td>(158,807)</td>
<td>(76,669)</td>
<td>10,199</td>
<td>2,889</td>
</tr>
</tbody>
</table>

The following exchange rates applied during the period:

<table>
<thead>
<tr>
<th>Reporting date spot rate</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 1</td>
<td>69.47</td>
<td>57.60</td>
</tr>
<tr>
<td>EUR 1</td>
<td>79.46</td>
<td>68.97</td>
</tr>
<tr>
<td>RSD 1</td>
<td>0.67</td>
<td>0.58</td>
</tr>
</tbody>
</table>

Sensitivity analysis
The Group has chosen to provide information about market and potential exposure to hypothetical gain (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group’s financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.
Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit and loss of the Group.

Interest Rate Risk
Part of the Group’s borrowings is at variable interest rates (linked to the Libor, Euribor or key rate of the Bank of Russia). To mitigate the risk of unfavourable changes in the Libor or Euribor rates, the Group’s treasury function monitors interest rates in debt markets and-based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate (in aggregate with other conditions) would be more favourable.

The interest rate profiles of the Group are presented below:

<table>
<thead>
<tr>
<th>Carrying amount</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td>296,296</td>
<td>30,130</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>681,008</td>
<td>564,730</td>
</tr>
<tr>
<td>Variable rate instruments</td>
<td>(426,722)</td>
<td>(434,977)</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>(119,928)</td>
<td>(127,907)</td>
</tr>
</tbody>
</table>

Cash flow sensitivity analysis for variable rate instruments
The Group’s financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group’s profit before taxation will change by the amounts shown below:

<table>
<thead>
<tr>
<th>Profit or (loss)</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase by 100 bp</td>
<td>(1,199)</td>
<td>(1,379)</td>
</tr>
</tbody>
</table>

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit and loss of the Group.

Commodity Price Risk
The Group’s financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group’s business planning system calculates different scenarios for key performance factors depending on global oil prices.

This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

Credit Risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and in connection with investment securities.

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group is exposed to credit risk due to sales with deferred payment terms which are usual and customary in the market. There is risk of non-delayed receipt of payments for crude oil and petroleum products (risk of tightening of working capital) and risk of default of counterparty.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The Group’s trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. The Group has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions depending on each counterparty’s financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and Other Receivables
The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.
Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- history of relationships with the Group;
- credit profile of the customer;
- duration of relationships with the Group, including ageing profile.

The compliance with credit limits by wholesale customers is automatically controlled.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, letter of credit from a bank, pledge or third party guarantee.

The Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group. To assess whether there is a significant increase in credit risk the Group compares the solvency data occurring as at the reporting date with the same data as at the date of initial recognition. The Group considers available reasonable and supportable forward-looking information.

The Management believes that not impaired trade and other receivables are fully recoverable.

The Group recognises an allowance for impairment that represents its best estimate of incurred losses in respect of trade and other receivables.

Trade receivables representing due from customers in the ordinary course of business are short-term by nature and do not contain the significant financial component. Lifetime expected credit loss estimation is equal 12-months measure. The Group makes forward-looking information adjustment, if changes between prior year macroparameters’ level and its forecast for next 12 months are significant.

Estimated provision matrices have been prepared for separate portfolios of receivables, homogeneous in terms of credit risk. Types of products sold, geographical specificity of distributional channels, ageing period of receivables and other factors were taken into account to separate individual portfolios.

As of 31 December 2018 and 2017, the ageing analysis of financial receivables is as follows:

<table>
<thead>
<tr>
<th>Gross</th>
<th>Credit loss allowance</th>
<th>Gross</th>
<th>Credit loss allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>7,567</td>
<td>12,276</td>
<td></td>
</tr>
<tr>
<td>Increase during the year</td>
<td>461</td>
<td>796</td>
<td></td>
</tr>
<tr>
<td>Amounts written off against receivables</td>
<td>(5,744)</td>
<td>(68)</td>
<td></td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(224)</td>
<td>(386)</td>
<td></td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>191</td>
<td>(5,477)</td>
<td></td>
</tr>
<tr>
<td>Other movements</td>
<td>9</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Translation differences</td>
<td>204</td>
<td>988</td>
<td></td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>2,430</td>
<td>7,567</td>
<td></td>
</tr>
</tbody>
</table>

The movement in the credit loss allowance for impairment in respect of trade and other receivables during the period was as follows:

<table>
<thead>
<tr>
<th>Gross</th>
<th>Credit loss allowance</th>
<th>Gross</th>
<th>Credit loss allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>12,288</td>
<td>11,970</td>
<td></td>
</tr>
<tr>
<td>Increase during the year</td>
<td>172</td>
<td>345</td>
<td></td>
</tr>
<tr>
<td>Amounts written off against receivables</td>
<td>(332)</td>
<td>(192)</td>
<td></td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(92)</td>
<td>(162)</td>
<td></td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>(195)</td>
<td>296</td>
<td></td>
</tr>
<tr>
<td>Other movements</td>
<td>17</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Translation differences</td>
<td>97</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>11,727</td>
<td>12,288</td>
<td></td>
</tr>
</tbody>
</table>

The credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and other receivables.
The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets. As of 31 December 2018 and 2017 no significant credit loss allowance for impairment in respect of these assets was recognized.

LIQUIDITY RISK
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group’s approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources (including cash position and available unused credit facilities) are maintained and available to meet upcoming liabilities under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group’s reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

<table>
<thead>
<tr>
<th>As of 31 December 2018</th>
<th>BB</th>
<th>Less than BB</th>
<th>Without rating</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>11,671</td>
<td>190,856</td>
<td>45,058</td>
<td>257,585</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>-</td>
<td>-</td>
<td>855</td>
<td>855</td>
</tr>
<tr>
<td>Long-term loans issued</td>
<td>-</td>
<td>-</td>
<td>7,866</td>
<td>7,866</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As of 31 December 2017</th>
<th>BB</th>
<th>Less than BB</th>
<th>Without rating</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>7,571</td>
<td>74,402</td>
<td>8,635</td>
<td>90,408</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>-</td>
<td>-</td>
<td>6,67</td>
<td>6,67</td>
</tr>
<tr>
<td>Deposits with original maturity more than 3 months less than 1 year</td>
<td>3,293</td>
<td>2,485</td>
<td>1</td>
<td>5,779</td>
</tr>
<tr>
<td>Deposits with original maturity more than 1 year</td>
<td>1,179</td>
<td>-</td>
<td>2</td>
<td>1,181</td>
</tr>
<tr>
<td>Long-term loans issued</td>
<td>-</td>
<td>-</td>
<td>27,895</td>
<td>27,895</td>
</tr>
</tbody>
</table>

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2018 and 2017 no significant credit loss allowance for impairment in respect of these assets was recognized.

LIQUIDITY RISK
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group’s approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources (including cash position and available unused credit facilities) are maintained and available to meet upcoming liabilities under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group’s reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

<table>
<thead>
<tr>
<th>As of 31 December 2018</th>
<th>Carrying amount</th>
<th>Contractual cash flows</th>
<th>Less than 6 months</th>
<th>6 - 12 months</th>
<th>1 - 2 years</th>
<th>2 - 5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>426,647</td>
<td>526,623</td>
<td>32,310</td>
<td>63,181</td>
<td>27,703</td>
<td>398,655</td>
<td>4,546</td>
</tr>
<tr>
<td>Bonds</td>
<td>132,719</td>
<td>173,579</td>
<td>15,548</td>
<td>6,915</td>
<td>9,427</td>
<td>85,206</td>
<td>58,283</td>
</tr>
<tr>
<td>Loan Participation Notes</td>
<td>209,626</td>
<td>257,913</td>
<td>5,066</td>
<td>5,066</td>
<td>10,812</td>
<td>234,289</td>
<td>-</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>8,663</td>
<td>13,249</td>
<td>9,687</td>
<td>-</td>
<td>303</td>
<td>710</td>
<td>1,788</td>
</tr>
<tr>
<td>Other non-current financial liabilities</td>
<td>43,234</td>
<td>62,643</td>
<td>5</td>
<td>-</td>
<td>11,057</td>
<td>34,779</td>
<td>16,802</td>
</tr>
<tr>
<td>Finance lease liabilities</td>
<td>25,683</td>
<td>36,809</td>
<td>1,694</td>
<td>1,697</td>
<td>3,414</td>
<td>10,080</td>
<td>17,924</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>307,604</td>
<td>307,604</td>
<td>296,839</td>
<td>10,552</td>
<td>28</td>
<td>163</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>1,151,774</td>
<td>1,376,220</td>
<td>361,289</td>
<td>86,732</td>
<td>63,004</td>
<td>765,882</td>
<td>99,313</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As of 31 December 2017</th>
<th>Carrying amount</th>
<th>Contractual cash flows</th>
<th>Less than 6 months</th>
<th>6 - 12 months</th>
<th>1 - 2 years</th>
<th>2 - 5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>303,173</td>
<td>363,057</td>
<td>31,966</td>
<td>32,262</td>
<td>191,009</td>
<td>216,262</td>
<td>3,691</td>
</tr>
<tr>
<td>Bonds</td>
<td>143,007</td>
<td>192,023</td>
<td>26,665</td>
<td>5,681</td>
<td>20,804</td>
<td>104,019</td>
<td>36,772</td>
</tr>
<tr>
<td>Loan Participation Notes</td>
<td>226,110</td>
<td>277,970</td>
<td>57,052</td>
<td>4,482</td>
<td>8,965</td>
<td>113,295</td>
<td>94,176</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>8,124</td>
<td>9,929</td>
<td>369</td>
<td>570</td>
<td>285</td>
<td>4,603</td>
<td>2,282</td>
</tr>
<tr>
<td>Other non-current financial liabilities</td>
<td>47,274</td>
<td>74,384</td>
<td>-</td>
<td>-</td>
<td>11,580</td>
<td>14,173</td>
<td>48,831</td>
</tr>
<tr>
<td>Finance lease liabilities</td>
<td>22,223</td>
<td>31,207</td>
<td>1,385</td>
<td>1,386</td>
<td>5,511</td>
<td>5,564</td>
<td>17,447</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>177,680</td>
<td>177,680</td>
<td>173,660</td>
<td>4,020</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>927,591</td>
<td>1,126,850</td>
<td>291,097</td>
<td>86,732</td>
<td>151,818</td>
<td>434,973</td>
<td>201,021</td>
</tr>
</tbody>
</table>

Reconciliation of liabilities arising from financing activities
The table below sets out an analysis of net debt and the movements in the Group’s liabilities from financing activities for each of the years presented. The items of these liabilities are those that are reported as financing in the Consolidated Statement of Cash Flows:
### Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group’s share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital Employed is defined as total equity plus net debt.

The Group’s net debt to EBITDA ratios at the end of the reporting periods were as follows:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>684,090</td>
</tr>
<tr>
<td>Short-term debt and current portion of long-term debt</td>
<td>399,932</td>
</tr>
<tr>
<td>Less: cash, cash equivalents and deposits</td>
<td>(247,582)</td>
</tr>
<tr>
<td>Net debt</td>
<td>527,868</td>
</tr>
<tr>
<td>EBITDA</td>
<td>584,027</td>
</tr>
<tr>
<td>Net debt to EBITDA ratio at the end of the reporting period</td>
<td>0.9</td>
</tr>
<tr>
<td>Operating profit</td>
<td>456,742</td>
</tr>
<tr>
<td>Operating profit adjusted for income tax expenses</td>
<td>363,933</td>
</tr>
<tr>
<td>Less: share of profit of associates and joint ventures</td>
<td>70,704</td>
</tr>
<tr>
<td>Average capital employed</td>
<td>2,381,624</td>
</tr>
<tr>
<td>ROACE</td>
<td>19.1%</td>
</tr>
<tr>
<td>Net debt to EBITDA ratio at the end of the reporting period</td>
<td>1.2</td>
</tr>
</tbody>
</table>

There were no changes in the Group’s approach to capital management during the period.

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy have been defined as follows:
- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2**: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following assets and liabilities are measured at fair value in the Group’s Consolidated Financial Statements: derivative financial instruments, equity investments and Stock Appreciation Rights plan (SARs).
Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Equity investments represented by unlisted equity securities and refer to Level 3 of the fair value measurement hierarchy. The Group determines fair value for unlisted equity securities considering different scenarios of future capital distributions for such investments. There were no significant changes in fair values for the reporting period. There were no transfers between the levels of the fair value hierarchy during the years ended 31 December 2018 and 2017. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.

As of 31 December 2018 the fair value of bonds and loan participation notes is ₽ 338,324 million (₽ 378,085 million as of 31 December 2017). The fair value is derived from quotations in active market from external source of financial information and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities measured at amortised cost approximates their fair value. The fair values were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

<table>
<thead>
<tr>
<th>Level 2</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward exchange contracts</td>
<td>(1,493)</td>
<td>(1,493)</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>(6,852)</td>
<td>(6,852)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>(6,145)</td>
<td>(6,145)</td>
</tr>
</tbody>
</table>

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group’s market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date. The awards are subject to certain market and service conditions that determine the amount that may ultimately be accrued to eligible employees. The expense recognised is based on the vesting period.

In the Consolidated Statement of Profit and Loss and Other Comprehensive Income for the years ended 31 December 2018 and 2017 the Group recognised accrued expenses related to SAR provision due to the growth in the value of Company’s shares in the amount of ₽ 4,652 million and ₽ 5,727 million, respectively. This expense is presented within selling, general and administrative expenses. In the Consolidated Statement of Financial Position as of 31 December 2018 and 31 December 2017 the Group recognised accrued liability in amount of ₽ 4,652 million and ₽ 10,114 million, respectively.

### 35. Operating leases

Non-cancellable operating lease rentals are payable as follows:

<table>
<thead>
<tr>
<th>Lease term</th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>15,154</td>
<td>12,929</td>
</tr>
<tr>
<td>Between one and five years</td>
<td>44,417</td>
<td>37,474</td>
</tr>
<tr>
<td>More than five years</td>
<td>63,439</td>
<td>91,278</td>
</tr>
<tr>
<td>More than five years</td>
<td>123,600</td>
<td>141,491</td>
</tr>
</tbody>
</table>

The Group rents main land plots under pipelines, office premises and vessels under time-charter agreements.

### 36. Commitments and contingencies

#### Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management’s treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit has been taken. Under certain circumstances tax audits may cover longer periods. The field tax audit with regard to the years 2015-2017 is performing now; the 2018 year is currently open for tax audit. Management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessments for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm’s-length basis.
The compliance of the prices of the Group’s controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. Management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group’s tax positions and related tax returns. In addition in order to mitigate potential risks, the Group regularly negotiates approaches to defining prices used for tax purposes for major controllable transactions with tax authorities in advance. Nineteen pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012-2018. As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While Management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Economic environment in the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 and 2018, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by volatility of oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2017. In August 2018 the U.S. signed an act to impose further sanctions against the Russian Federation. The Group assessed that the new sanctions don’t have significant impact on its activity.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government’s requirements concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

Capital commitments

As of 31 December 2018 the Group has entered into contracts to purchase property, plant and equipment for ₽363,690 million (₽328,697 million as of 31 December 2017).

37. Group entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Country of incorporation</th>
<th>Ownership interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSC Gazpromneft-NNO</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-Orenburg LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-Ostfleisch LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-Khanty LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-Yamal LLC</td>
<td>Russian Federation</td>
<td>90%</td>
</tr>
<tr>
<td>JSC Ulyanovneftegaz</td>
<td>Russian Federation</td>
<td>87.5%</td>
</tr>
<tr>
<td>Gazpromneft-Vostok LLC</td>
<td>Russian Federation</td>
<td>91%</td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Centro LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-Regional Sales LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>JSC Gazpromneft-Aero</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-Marin Bunker LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft Corporate Sales LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Other Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Lubricants LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-Bitumen Materials LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft-NITC LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>GPN-Finance LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>GPN-Invest LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Gazpromneft Shipping LLC</td>
<td>Russian Federation</td>
<td>100%</td>
</tr>
<tr>
<td>Multibusiness companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naftna industrija Srpske A.D.</td>
<td>Serbia</td>
<td>56.2%</td>
</tr>
</tbody>
</table>

In September 2018 the Group completed deal on disposal of non-controlling interest equal to 49% of share capital of Gazpromneft-Vostok LLC to third parties. The Group maintained control over the Company. In result non-controlling interest in the amount of ₽21.3 billion was recognized. Excess of the payment over non-controlling interest was recognized at additional paid-in capital attributable to Gazprom Neft shareholders.

The following table summarises the information relating to the non-controlling interest of Naftna industrija Srpske A.D. and its subsidiaries, Gazpromneft-Vostok LLC and Gazprom Resource Northgas LLC. The carrying amount of non-controlling interests of all other subsidiaries is not significant individually.
The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC and Gazprom Resource Northgas LLC as of 31 December 2018 and 2017 and for the years ended 31 December 2018 and 2017:

<table>
<thead>
<tr>
<th>Carrying amount of non-controlling interest</th>
<th>Profit for the period attributable to non-controlling interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2018</td>
<td>31 December 2017</td>
</tr>
<tr>
<td>Naftna industrija Srbije A.D. and its subsidiaries</td>
<td>87,815</td>
</tr>
<tr>
<td>Gazpromneft-Vostok</td>
<td>24,176</td>
</tr>
<tr>
<td>Gazprom Resource Northgas</td>
<td>18,374</td>
</tr>
</tbody>
</table>

The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC and Gazprom Resource Northgas LLC as of 31 December 2018 and 2017 and for the years ended 31 December 2018 and 2017:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>Naftna industrija Srbije A.D. and its subsidiaries</th>
<th>Gazpromneft-Vostok</th>
<th>Gazprom Resource Northgas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>66,310</td>
<td>9,631</td>
<td>14,715</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>262,190</td>
<td>-</td>
<td>7,767</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(37,010)</td>
<td>(4,907)</td>
<td>(211)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(41,812)</td>
<td>(14,880)</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>31 December 2017</th>
<th>Naftna industrija Srbije A.D. and its subsidiaries</th>
<th>Gazpromneft-Vostok</th>
<th>Gazprom Resource Northgas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>41,608</td>
<td>9,558</td>
<td>15,171</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>218,321</td>
<td>53,926</td>
<td>12,568</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(36,140)</td>
<td>(6,599)</td>
<td>(211)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(41,812)</td>
<td>(14,880)</td>
<td>-</td>
</tr>
</tbody>
</table>

38. Related party transactions

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 – Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other government-related entities. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in Notes 9, 21 and 32. The Group also leases vessels under time-charter agreements with a government related entity (lease expense amounted ₽ 5.7 billion and ₽ 5.3 billion for the years ended 31 December 2018 and 2017 respectively). The tables below summarise transactions in the ordinary course of business with either the parent company or parent’s subsidiaries and associates or associates and joint ventures of the Group.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

As of 31 December 2018 and 2017 the outstanding balances with related parties were as follows:

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>Parent company</th>
<th>Parent’s subsidiaries and associates</th>
<th>Associates and joint ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>12</td>
<td>10,254</td>
<td>9,188</td>
</tr>
<tr>
<td>Other current assets</td>
<td>63</td>
<td>2,669</td>
<td>1,319</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td>-</td>
<td>-</td>
<td>7,827</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>-</td>
<td>-</td>
<td>458</td>
</tr>
<tr>
<td>Total assets</td>
<td>75</td>
<td>95,608</td>
<td>18,334</td>
</tr>
<tr>
<td>Short-term debt and other current financial liability</td>
<td>-</td>
<td>68,519</td>
<td>627</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>111,842</td>
<td>2,405</td>
<td>88,028</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>10</td>
<td>398</td>
<td>500</td>
</tr>
<tr>
<td>Long-term debt and other non-current financial liability</td>
<td>43,618</td>
<td>20,000</td>
<td>-</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>17,055</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>172,545</td>
<td>91,522</td>
<td>89,155</td>
</tr>
</tbody>
</table>
For the years ended 31 December 2018 and 2017 the following transactions occurred with related parties:

### Year ended 31 December 2018

<table>
<thead>
<tr>
<th>Parent company</th>
<th>Parent’s subsidiaries and associates</th>
<th>Associates and joint ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>-</td>
<td>27,201</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>-</td>
<td>1,322,376</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>6,367</td>
<td>6,172,913</td>
</tr>
<tr>
<td>Other current assets</td>
<td>33</td>
<td>2,708,760</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>309</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>4,570,392</td>
<td>35,712,046</td>
</tr>
<tr>
<td>Short-term debt and other current financial liability</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>52,970</td>
<td>2,257,158</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>130</td>
<td>318,278</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>106,974</td>
<td>60,175,087</td>
</tr>
</tbody>
</table>

### Year ended 31 December 2017

<table>
<thead>
<tr>
<th>Parent company</th>
<th>Parent’s subsidiaries and associates</th>
<th>Associates and joint ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>-</td>
<td>27,201</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>-</td>
<td>3,776,963</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>6,367</td>
<td>9,813,963</td>
</tr>
<tr>
<td>Other current assets</td>
<td>33</td>
<td>780,303</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>309</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>6,590,276</td>
<td>42,045,063</td>
</tr>
<tr>
<td>Short-term debt and other current financial liability</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>52,970</td>
<td>38,173,158</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>130</td>
<td>197,278</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>106,974</td>
<td>38,677,087</td>
</tr>
</tbody>
</table>

### Transactions with Key Management Personnel

For the years ended 31 December 2018 and 2017 remuneration of key management personnel (members of the Board of Directors and the Management Committee) such as salary and other contributions amounted ₽2,681 million and ₽2,934 million, respectively. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

### 39. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development, production and sale of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude oil and refined petroleum products.

The information about the Group’s operating segments for the years ended 31 December 2018 and 2017 is presented below:

### Year ended 31 December 2018

<table>
<thead>
<tr>
<th>Year ended 31 December 2018</th>
<th>Upstream</th>
<th>Downstream</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales: External customers</td>
<td>57,575</td>
<td>2,631,717</td>
<td>-</td>
<td>2,689,292</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>1,135,265</td>
<td>20,630</td>
<td>(1,155,895)</td>
<td>-</td>
</tr>
<tr>
<td>Total revenue from sales</td>
<td>1,192,820</td>
<td>2,452,347</td>
<td>(1,155,895)</td>
<td>2,489,292</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>679,751</td>
<td>119,755</td>
<td>-</td>
<td>799,506</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>137,076</td>
<td>38,375</td>
<td>-</td>
<td>175,451</td>
</tr>
<tr>
<td>Impairment of assets</td>
<td>4,340</td>
<td>-</td>
<td>-</td>
<td>4,340</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>194,621</td>
<td>160,576</td>
<td>-</td>
<td>355,197</td>
</tr>
</tbody>
</table>

### Year ended 31 December 2017

<table>
<thead>
<tr>
<th>Year ended 31 December 2017</th>
<th>Upstream</th>
<th>Downstream</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales: External customers</td>
<td>214,811</td>
<td>1,719,778</td>
<td>-</td>
<td>1,934,589</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>617,838</td>
<td>27,531</td>
<td>(645,369)</td>
<td>-</td>
</tr>
<tr>
<td>Total revenue from sales</td>
<td>832,649</td>
<td>1,747,309</td>
<td>(645,369)</td>
<td>1,934,589</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>433,036</td>
<td>117,931</td>
<td>-</td>
<td>550,967</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>137,076</td>
<td>38,375</td>
<td>-</td>
<td>175,451</td>
</tr>
<tr>
<td>Impairment of assets</td>
<td>4,340</td>
<td>-</td>
<td>-</td>
<td>4,340</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>194,621</td>
<td>160,576</td>
<td>-</td>
<td>355,197</td>
</tr>
</tbody>
</table>

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and petroleum products, and other adjustments.
Adj usted EBITDA represents the Group’s EBITDA and its share in associates’ and joint ventures’ EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group’s ongoing operating activities, as it reflects the Group’s earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, net foreign exchange gain (loss), other non-operating expenses and includes the Group’s share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.

The geographical segmentation of the Group’s revenue and capital expenditures for the years ended 31 December 2018 and 2017 is presented below:

### Year ended 31 December 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenues from external customers, net</th>
<th>Sales of crude oil</th>
<th>Sales of petroleum products</th>
<th>Sales of gas</th>
<th>Other sales</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>1,255,381</td>
<td>88,668</td>
<td>1,075,927</td>
<td>36,805</td>
<td>16,801</td>
<td>2,498,292</td>
</tr>
<tr>
<td>CIS</td>
<td>132,825</td>
<td>38,993</td>
<td>76,058</td>
<td>-</td>
<td>2,130</td>
<td>2,632,624</td>
</tr>
<tr>
<td>Export and international operations</td>
<td>1,101,086</td>
<td>590,630</td>
<td>496,170</td>
<td>5,010</td>
<td>13,276</td>
<td>70,572</td>
</tr>
<tr>
<td>Total</td>
<td>2,489,292</td>
<td>651,560</td>
<td>1,542,407</td>
<td>61,815</td>
<td>1,088</td>
<td>3,280,898</td>
</tr>
</tbody>
</table>

For the years ended 31 December 2018 and 2017 export sales of crude oil include sales from upstream segment in the amount of ₽36,981 million and ₽196,518 million, respectively. The remaining amount of ₽503,649 million for the year ended 31 December 2018 (₽239,624 million for the year ended 31 December 2017) represents sales from downstream segment.

### Year ended 31 December 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenues from external customers, net</th>
<th>Sales of crude oil</th>
<th>Sales of petroleum products</th>
<th>Sales of gas</th>
<th>Other sales</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>83,393</td>
<td>30,117</td>
<td>76,058</td>
<td>-</td>
<td>2,130</td>
<td>2,632,624</td>
</tr>
<tr>
<td>CIS</td>
<td>132,825</td>
<td>76,058</td>
<td>76,058</td>
<td>-</td>
<td>2,130</td>
<td>2,632,624</td>
</tr>
<tr>
<td>Export and international operations</td>
<td>1,101,086</td>
<td>626,142</td>
<td>496,170</td>
<td>5,010</td>
<td>13,276</td>
<td>70,572</td>
</tr>
<tr>
<td>Total</td>
<td>2,489,292</td>
<td>651,560</td>
<td>1,542,407</td>
<td>61,815</td>
<td>1,088</td>
<td>3,280,898</td>
</tr>
</tbody>
</table>

For the years ended 31 December 2018 and 2017 export sales of crude oil include upstream segment sales in the amount of ₽36,981 million and ₽196,518 million, respectively. The remaining amount of ₽503,649 million for the year ended 31 December 2018 (₽239,624 million for the year ended 31 December 2017) represents downstream sales.

### 40. Subsequent events

In January 2019 the Group borrowed ₽19.9 billion under long-term facility agreement with one of the Russian banks due payable in June 2021.

In the beginning of 2019 the object of capital construction MFC “Lahta Center” was transferred to new owner based on agreement requirements. In accordance with completion stage of works at the object and clarification of the settlements amounts with contractors the final determination of total cost of the object is expected in the second half of 2019. Respectively, the Group cannot reliably estimate financial result and impact of this event as at the date of issue of these Consolidated Financial Statements.

### 41. Supplementary information on oil and gas activities (unaudited)

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplemental information associated with the Group’s consolidated subsidiaries, share in joint operations, associates and joint ventures.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group’s Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.
Presented below are capitalised costs relating to oil and gas producing activities:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated subsidiaries and share in joint operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unproved oil and gas properties</td>
<td>103,983</td>
<td>89,558</td>
</tr>
<tr>
<td>Proved oil and gas properties</td>
<td>1,852,270</td>
<td>1,584,543</td>
</tr>
<tr>
<td>Less: Accumulated depreciation, depletion and amortisation</td>
<td>(783,343)</td>
<td>(628,226)</td>
</tr>
<tr>
<td>Net capitalised costs of oil and gas properties</td>
<td>1,172,910</td>
<td>1,045,875</td>
</tr>
<tr>
<td>Group’s share of associates and joint ventures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proved oil and gas properties</td>
<td>623,845</td>
<td>553,553</td>
</tr>
<tr>
<td>Less: Accumulated depreciation, depletion and amortisation</td>
<td>(203,268)</td>
<td>(168,373)</td>
</tr>
<tr>
<td>Net capitalised costs of oil and gas properties</td>
<td>420,577</td>
<td>385,180</td>
</tr>
<tr>
<td>Total capitalised costs consolidated and equity interests</td>
<td>1,593,487</td>
<td>1,431,055</td>
</tr>
</tbody>
</table>

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2018</th>
<th>Year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated subsidiaries and share in joint operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration costs</td>
<td>22,301</td>
<td>20,281</td>
</tr>
<tr>
<td>Development costs</td>
<td>191,420</td>
<td>193,540</td>
</tr>
<tr>
<td>Costs incurred</td>
<td>213,721</td>
<td>213,821</td>
</tr>
<tr>
<td>Group’s share of associates and joint ventures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration costs</td>
<td>459</td>
<td>679</td>
</tr>
<tr>
<td>Development costs</td>
<td>69,833</td>
<td>59,877</td>
</tr>
</tbody>
</table>
| Total costs incurred consolidated and equity interests | 286,013                      | 276,306                    

Results of operations from oil and gas producing activities for the years ended 31 December:

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group’s independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):
### Proved Oil Reserves Quantities - in MMbl

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>4,849</td>
<td>4,849</td>
</tr>
<tr>
<td>Production</td>
<td>(356)</td>
<td>(357)</td>
</tr>
<tr>
<td>Purchases of minerals in place</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revision of previous estimates</td>
<td>347</td>
<td>353</td>
</tr>
<tr>
<td>End of year</td>
<td>4,800</td>
<td>4,847</td>
</tr>
<tr>
<td>Minority's share included in the above proved reserves</td>
<td>621</td>
<td>336</td>
</tr>
<tr>
<td>Proved reserves, adjusted for minority interest</td>
<td>4,798</td>
<td>4,816</td>
</tr>
<tr>
<td>Proved developed reserves</td>
<td>2,640</td>
<td>2,660</td>
</tr>
<tr>
<td>Proved undeveloped reserves</td>
<td>2,170</td>
<td>2,189</td>
</tr>
</tbody>
</table>

### Proved Gas Reserves Quantities - in Bcf

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>8,785</td>
<td>6,387</td>
</tr>
<tr>
<td>Production</td>
<td>(665)</td>
<td>(579)</td>
</tr>
<tr>
<td>Purchases of minerals in place</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revision of previous estimates</td>
<td>2,098</td>
<td>2,977</td>
</tr>
<tr>
<td>End of year</td>
<td>10,218</td>
<td>8,785</td>
</tr>
<tr>
<td>Minority's share included in the above proved reserves</td>
<td>(489)</td>
<td>(314)</td>
</tr>
<tr>
<td>Proved reserves, adjusted for minority interest</td>
<td>9,729</td>
<td>8,471</td>
</tr>
<tr>
<td>Proved developed reserves</td>
<td>4,066</td>
<td>4,150</td>
</tr>
<tr>
<td>Proved undeveloped reserves</td>
<td>6,172</td>
<td>4,325</td>
</tr>
<tr>
<td>Group’s share of associates and joint ventures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>1,665</td>
<td>1,665</td>
</tr>
<tr>
<td>Production</td>
<td>(103)</td>
<td>(99)</td>
</tr>
<tr>
<td>Purchases of minerals in place</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revision of previous estimates</td>
<td>189</td>
<td>93</td>
</tr>
<tr>
<td>End of year 1</td>
<td>1,562</td>
<td>1,465</td>
</tr>
<tr>
<td>Proved developed reserves</td>
<td>735</td>
<td>480</td>
</tr>
<tr>
<td>Proved undeveloped reserves</td>
<td>826</td>
<td>765</td>
</tr>
<tr>
<td>Total consolidated and equity interests in reserves - end of year</td>
<td>6,402</td>
<td>6,294</td>
</tr>
</tbody>
</table>

1. Including 82% NCI share in Gazprom Resource Northgas.

### Standardised measure of discounted future net cash flows relating to proved oil and gas reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management’s estimate of the Group’s expected future cash flows or of the value Group’s proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group’s future cash flows or of the value of its oil and gas reserves.

1. Including 82% NCI share in Gazprom Resource Northgas.
### APPENDIX 3. COMPANY HISTORY

#### 1995

**Sibneft is formed**

Siberian Oil Company ("Sibneft") is formed by the decree of the President of Russia. The government acts as the founding shareholder, contributing its stakes in the country’s oil majors, including Noyabrskneftegaz, Noyabrskneftegeophysika, Omsk Refinery and Omsknefteprodukt, to the new company’s capital.

#### 1996–1997

**Sibneft is privatised**

In a move towards a market economy, the government of Russia decides to pursue Sibneft’s privatisation. In 1996, private investors acquire 49% of the Company’s stock through privatisation auctions. In 1997, Financial Oil Company wins the auction to purchase the government’s stake in Sibneft as part of the government’s Shares for Loans programme.

#### 1998–2004

**Asset build-up**

By pursuing an aggressive growth strategy, Sibneft significantly expands the geography of its production operations (in the Tomsk and Omsk regions) and sales network (in the Sverdlovsk and Tyumen regions, the Krasnoyarsk Territory, St Petersburg and Moscow). Among the Company’s major acquisitions over the period is the purchase of a 49.9% stake in Slavneft involved in oil and gas production in Western Siberia and the Krasnoyarsk Territory.

**Rapid growth**

A strong resource base, efficient refining assets and highly professional leadership are the core drivers behind the Company’s rapid growth. The Sibneft’s management team takes the Company well forward in upgrading production, introducing cutting-edge technologies and streamlining business processes.

#### 2005

**Gazprom acquires controlling stake in Sibneft**

In 2005, a controlling stake (75.68%) in Sibneft is acquired by the Gazprom Group, and on 13 May 2006, the Company is renamed Gazprom Neft. Following the acquisition, the Company sets an ambition to become a global player with a regionally diversified portfolio of assets across the entire value chain.

#### 2006

**Expanding into the Central Asian market**

Gazprom Neft steps into the Central Asian retail market with a dedicated subsidiary, Gazprom Neft Asia, selling the Company’s petroleum products in Kyrgyzstan, Tajikistan and Kazakhstan.

#### 2007

**Acquisition of Tomskneft**

In December 2007, the Company acquires 50% of Tomskneft involved in oil and gas production in the Tomsk Region and the Khanty-Mansi Autonomous Area, with a view to expanding its resource base.

**Splitting business lines**

Separate business units are set up by line of business, including Gazpromneft Marine Bunker, Gazpromneft-Lubricants and Gazpromneft-Aero.
2008

Venezuelan projects
In 2008, Gazprom Neft, Rosneft, Lukoil, TNK-BP and Surgutneftegaz sign a memorandum of understanding on cooperation and joint participation in projects in Venezuela as part of the National Oil Consortium.

2009

Resource base expansion
Gazprom Neft expands its resource base and refining capacities by acquiring Naftna Industrija Srbije A.D., Nevi Sad (NIS) and a controlling stake in Sibir Energy, while also increasing its share in the Moscow Refinery and getting access to the Salym oil fields. In April 2009, the Company closes a deal with Chevron Global Energy to purchase Chevron Italia s.p.a., an oils and lubricants production plant located in Bari (Italy). Another milestone for the Company in 2009 is the launch of a major rebranding programme for the Gazprom Neft filling station network.

2010

Global oil and gas market
Gazprom Neft continues rapid expansion in the global oil and gas market, signing a contract to develop the Badra field in Iraq and being appointed to lead the Junin-6 project in Venezuela. The Company continues entering new fuel markets outside of Russia with the acquisition of a retail network of 20 filling stations and 9 land plots in Kazakhstan, among other things. It also expands its presence in the Russian market by joining the project to develop promising fields in the north of the Yamal-Nenets Autonomous Area covered by the development licences held by SeverEnergia. In February, Gazprom Neft strikes a deal to buy STS-Service, a production unit of Sweden’s Malka Oil, which develops fields in the Tomsk Region.

2011

Production growth
Gazprom Neft gives a major boost to its operating performance by acquiring new assets and enhancing efficiency of the existing fields development. The Company buys a further 5.15% stake in Serbia’s NIS, raising its total interest to 56.15%, while also becoming the sole shareholder in Sibir Energy and acquiring its first assets in the Orenburg Region – the Tsarichanskoye and Kapitonovskoye fields as well as the Eastern block of the Orenburgskoye field. Drilling begins at the Badra field in Iraq.

Premium-class fuels
The Company begins producing Euro 4 gasoline at its refineries and launches sales of a new O-Drive premium-class motor fuel via its Gazpromneft filling station network, which is further expanded when the Company steps into Russia’s Southern Federal District.

High-quality bitumen materials
The Company launches treatment of raw materials for bitumen production at the Omsk Refinery, ensuring stable quality of feedstock for bitumen production and the high quality of finished products manufactured by the refinery. Another addition is a manufacturing unit for polymer-bitumen binders and bitumen emulsions supplied by Italy’s Massenza.

2012

Leader in efficiency
Gazprom Neft leads the Russian market in terms of hydrocarbon production and refining growth rates along with a range of efficiency metrics. The Company launches pilot oil production at two new major fields in the north of the Yamal-Nenets Autonomous Area (Westchno-Messoyakhskoye and Novoportovskoye). The first stage of commercial production begins at the Samburgskoye oil field and gas condensate field owned by the Russian-Italian company SeverEnergia, in which Gazprom Neft holds a 25% stake. The formation and development of a new production cluster continues in the Orenburg Region. The Company enters into new upstream projects in Iraq. The Moscow Refinery transitions to producing Euro 4 gasoline, while the Omsk Refinery begins producing Euro 4 and Euro 5 gasolines and Euro 5 diesel fuel. Gazprom Neft starts developing a retail network in Europe (in Serbia and Romania) under the Gazprom brand.
The Neptune field with 415 mt of oil in place is discovered in the Sea of Okhotsk near the Sakhalin Island. Another discovery is made in the Khanty-Mansi Autonomous Area, with the new field boasting 2.74 mtoe of 2P reserves and named after the Company's former head of production Alexander Zhagrin.

**New oil field discoveries**

The Triton field with 137 mtoe of hydrocarbons in place is discovered in the Sea of Okhotsk near the Sakhalin Island to become the second newly found field in the area, paving the way to the formation of the Company’s new strategic production cluster in the Russian Far East. A total of 4 new fields and 27 hydrocarbon deposits are discovered and booked on the Russian State Register of Mineral Reserves in 2018.

**New approach to exploration**

Gazprom Neft establishes Gazpromneft-GEO, a competence centre for the management of large-scale exploration projects. Its goal is to bring together the Company’s financial and exploration management resources, offer turn-key project management and ensure a stable discovery of new cost-effective reserves to replenish the Company’s resource base.

**New strategy to set a global industry benchmark**

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

To embrace new opportunities and meet new challenges in line with the updated strategy, the Company launches a major operational, organisational, cultural and digital transformation covering all aspects of its operations.

**Advanced icebreakers**

Gazprom Neft completes its Arctic fleet of support vessels, including the Alexander Sannikov and Andrey Vilkitsky icebreakers, both being the most powerful and advanced vessels in their class and featuring zero emissions just like all other Gazprom Neft’s facilities. The icebreakers support the Company’s tankers en route along the Gulf of Ob from the Arctic Gate terminal to the floating storage tanker in the Kola Bay.

**Deep conversion at Pančevo Refinery**

Naftna Industrija Srbije (NIS, 56.15% owned by Gazprom Neft) commences the construction of a new deep conversion facility based on delayed coking technology at its Pančevo Refinery, Serbia.

**Biological treatment facilities at Moscow Refinery**

Gazprom Neft completes the construction of cutting-edge Biosphere biological treatment facilities at its Moscow Refinery as part of a ₽9 bn investment project.
Digital transformation
Gazprom Neft’s Digital Transformation Directorate is set up with a view to developing and implementing the Company’s digitalisation strategy. The digitalisation strategy and roadmaps are already in place, with two innovation centres set up. Gazprom Neft’s Digital Innovation Centre connects startups, developers and R&D teams seeking to design disruptive digital solutions for Gazprom Neft’s integrated downstream platform.

The Company’s St Petersburg-based House of Innovations draws together experts in neural networks, digital platforms, the industrial Internet of things, blockchain technologies, augmented and virtual realities, machine learning and other Industry 4.0 innovations. It is used by the Company’s units as a platform for joint work relevant to Gazprom Neft’s goals.

New system of workplace safety
The Company is seeking to join the ranks of global workplace safety champions by 2030 in line with its updated Development Strategy. The safety system transformation will rely on a risk-based approach and comprise a number of initiatives, including the Goals, Safety Measures, and Certification, Examination, and Investigation projects focused on priority risks identification, risk mitigants development and implementation, and control over the mitigants’ roll-out across the Company, respectively.

Setting up JVs
Gazprom Neft, Mubadala Petroleum and the Russian Direct Investment Fund (RDIF) set up a joint venture to develop oil fields in the Tomsk and Omsk regions in Russia’s Western Siberia using the capacities of Gazpromneft-Vostok. The JV’s key opportunities lie in the area of exploring and developing pre-Jurassic (Palaeozoic) hydrocarbon deposits.

In addition, Gazprom Neft and Spain’s Repsol establish a joint venture to explore Karabashsky block 10 located in the Khanty-Mansi Autonomous Area. The block adjoins the Karabashsky zone licence blocks that are already controlled by Evrotek-Yugra, another joint venture of Gazprom Neft and Repsol.

Acquisition of new assets
Gazprom Neft acquires 100% in Enerkom controlling the Solnechny licence block in the Orenburg Region. The asset will be part of the Company’s Orenburg production cluster.

2018 also saw the completion of Arcticgas reorganisation, which established equal participation (50/50) of Gazprom Neft and NOVATEK. The 50/50 shareholding split creates the perfect synergy, making it possible to reap the benefits of shared access to vast expertise in hydrocarbon production, regional experience and infrastructure.

In addition, Gazprom Neft acquires a bitumen logistics terminal in Salak, the Rostov Region, to reinforce its logistics system that will ensure the supply of innovative bitumen products throughout Russia’s southern regions.

APPENDIX 4. STRUCTURE OF THE GAZPROM NEFT GROUP

Production
Gazpromneft-NNG JSC
Gazpromneft-Khantos LLC
Gazpromneft-Vostok LLC
Meretuyakhaneftegaz JSC
Gazpromneft-Angra LLC
Gazpromneft-Sakhalin LLC
Gazpromneft-Drenburg LLC
GPN-GEO JSC
Yuzhuralneftegaz PLC
Gazpromneft - Yamal LLC
Gazprom neft shelf LLC
Gazpromneft - Zaparye LLC
Gazpromneft-Development LTD
Khanty-Mansiysk Petroleum Alliance CJSC (JV)
TOMSKNEFT VNK JSC (JV)
Messoyakhaneftegaz JSC (JV)
ARCTICGAS JSC (JV)
Salym Petroleum Development N.V. (JV)
Gazprom Neft Badra B.V.
Gazprom Neft Middle East B.V.
The Bazhen Technology Centre LLC
Enercom LLC
Karabashsky-4 LLC
Gazpromneft-Prirozdomnoye LLC
Evrotek-Yugra JSC (JV)
Northgas CJSC (JV)
ASB GEO LLC (JV)

Refining
Gazpromneft Moscow Refinery JSC
Gazpromneft Omsk Refinery JSC
Gazpromneft-Yanadolsk PJSC (JV)
Yuzhno-Proibiskiy GPP LLC (JV)

Marketing of oil and petroleum products
Gazprom Neft Trading GmbH
Gazpromneft – Centre LLC
Munai-Myra JSC
Gazprom neft Asia LLC
Gazpromneft – Tyumen LLC
Gazpromneft – Krasnoyarsk LLC
Gazpromneft – Urals JSC
Gazpromneft – North-West JSC
Gazpromneft – Yaroslavl JSC
Gazpromneft-Transport JSC
Gazpromneft-Novosibirsk JSC
Gazprom Neft-Belnefteprodukt LLC
Gazprom neft – Tykystan LLC
Gazprom neft – Kazakhstan LLP
Alliance-Oil-Asia LLC
Gazprom Neft-Corporate Sales LLC
Gazpromneft – Mobilnaya card JSC
Mosnefteprodukt LLC
Gazpromneft Regional sales LLC
Gazpromneft-Alternativnoe Toplivo JSC
Gazpromneft-Terminal JSC
Universal-neft JSC
Gazpromneft-Laboratory LLC
Gazpromneft – Trade Drenburg LLC

Service companies
Gazpromneft-NNGF LLC
GPN-DI service LLC
NNGA LLC
NTN LLC
NEN LLC
NNGS LLC
Gazpromneft - Energoservice LLC
Nettechmrement LLC
Machinery and Repair Plant “Gazpromneft – Omsk Refinery” LLC
Automation-service LLC
Garant Service LLC (JV)

*The Group’s structure covers JV and key operating companies.*
Lubricants and petrochemicals
Gazpromneft – Lubricants LTD
Gazpromneft MLP JSC
Gazprom Neft Lubricants Italia S.p.A.
GAZPROMNEFT LUBRICANTS UKRAINE LLC
Gazpromneft-Bitumen Materials LLC
Gazpromneft – CS LLC
Gazpromneft – Ryazan Bitumen Binders Plant LLC
NOVA-BRIT LLC
Polyefir LLC
BSV-KHIM LLC
Sovkhimtech JSC
Sibgazpolymer JSC (JV)
Gazpromneft – Bitum Kazakhstan LLP
Bitumen Terminals LLC
TRANS-REAL LLC
Polism LTD (JV)
NPP Naftekhimia LLC (JV)
Gazpromneft-Total PMB LLC (JV)

Bunkering
Gazpromneft Marine Bunker LLC
Gazpromneft Shipping LLC
Gazpromneft Terminal SPb LLC
GAZPROMNEFT MARINE BUNKER BALKAN S.A.
AS Baltic Marine Bunker
Novorossiysk Petrotanshipment Complex LLC
Novorosneftservis LLC

Multibusiness companies
Naftna Industrija Srbije A.D., Novi Sad

Other operations
Altaiiskoye Podvorye LLC
Lakhta Centre JSC
GPN-Finance LLC
GPN-Enargo LLC
GPN-ZS LLC
GAZPROMNEFT SCIENCE & TECHNOLOGY CENTRE LLC
GPN-Invest LLC
Gazpromneft Business Service LLC
Galernaya 5 Complex LLC
Gazpromneft-Logistics LLC
ITSC LLC
Gazpromneft Procurement LLC
Arctica Media JSC
Gazprom Neft International S.A.
Gazprom Neft Finance B.V.
Gazprom Neft Downstream B.V.
Gazprom Neft Business Service B.V.
PC-8A LTD (JV)
NPC LLC (JV)
GPN-project LLC
Gazpromneft-Aero Bryansk LLC
Zarech’e Club LTD
Unifel LLC
Gazpromneft-Orenburg Soyuz LLC

APPENDIX 5.
INFORMATION ON ENERGY CONSUMPTION BY GAZPROM NEFT

In 2018, Gazprom Neft’s electricity expenses were accounted for as part of the lease expenses under the lease agreements and amounted to ₽ 14,375,988.40, including VAT of ₽ 2,192,947.37.

Gazprom Neft does not keep record of the amount of energy consumed.
APPENDIX 6. TAXATION IN THE OIL INDUSTRY

Average tax rates effective in reporting periods for the taxation of oil and gas companies in Russia

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2018</th>
<th>2017</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export duty, $/t</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>93.10</td>
<td>86.74</td>
<td>7.3</td>
</tr>
<tr>
<td>Light petroleum products</td>
<td>27.91</td>
<td>25.99</td>
<td>7.4</td>
</tr>
<tr>
<td>Diesel</td>
<td>27.91</td>
<td>25.99</td>
<td>7.4</td>
</tr>
<tr>
<td>Gasoline</td>
<td>27.91</td>
<td>25.99</td>
<td>7.4</td>
</tr>
<tr>
<td>Naphtha</td>
<td>51.17</td>
<td>47.67</td>
<td>7.3</td>
</tr>
<tr>
<td>Heavy petroleum products</td>
<td>93.10</td>
<td>86.74</td>
<td>7.3</td>
</tr>
<tr>
<td>Mineral extraction tax, ₽/t</td>
<td>9,319</td>
<td>8,134</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Crude oil and petroleum products export duty rates


Crude oil export duty rate

According to Clause 4, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 On the Customs Tariff, export duty rates for oil shall not exceed the marginal export duty rates calculated according to the following formulas:

- \( R = (P – 182.5) \times C \) – 56.57 – 0.14 \( P \), where \( P \) is the Urals price ($/t) and \( C \) is the increment coefficient, which from 2017 stood at 30%.

The Russian Government Resolution No. 846 dated 26 September 2013 established a procedure for preparing proposals on using special formulas to calculate crude export duties and for monitoring the validity of these formulas’ application, including with respect to new projects in the Republic of Sakha (Yakutia), Irkutsk Region, Krasnoyarsk Territory, and Yamal-Nenets Autonomous Area north of the 65th parallel north.

Decree No. 868 dated 3 December 2013 of the Russian Ministry of Energy approved the application form and methodological guidelines for analysing the validity of using the special formulas for calculating crude oil export duty rates.

Federal Law No. 305-FZ dated 3 August 2018 updated the procedure for applying special formulas to calculate export duties on oil with special physical and chemical properties produced within the geographic areas specified in Subclause 4, Clause 5, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 2003 On the Customs Tariff. Starting 1 January 2019, the tax concession applies until a set quantity of oil is exported with the use of these formulas for each of the areas.

According to Clause 1.1, Article 35 of the Russian Federation Law No. 5003-1 dated 21 May 1993 On the Customs Tariff, oil produced from a new offshore field shall be exempt from the export duties for the following periods:

- until 31 March 2022 – for fields located entirely in the Sea of Azov or with at least 50% of their territory in the Baltic Sea, the Black Sea (up to 100 m deep), the Pechora Sea or the White Sea, the Sea of Okhotsk (south of the 55th parallel north), or the Russian stretch of the Caspian seabed;
- until 31 March 2022 – for fields with at least 50% of their territory in the Black Sea (over 100 m deep), the Sea of Okhotsk (north of the 55th parallel north), or the Barents Sea (south of the 72nd parallel north);
- indefinitely – for fields with at least 50% of their territory in the Kara Sea, the Barents Sea (north of the 72th parallel north), Eastern Arctic (the Laptev Sea, the East Siberian Sea, the Chukchi Sea, the Bering Sea).

Crude oil exports to the Republic of Kazakhstan are not subject to oil export duties. Crude oil exports to Kyrgyzstan and Belarus under indicative limits are not subject to oil export duties.

According to Federal Law No. 305-FZ dated 3 August 2018, the Russian Government shall have the right to introduce a protective export duty rate for crude oil, which is calculated according to the following formulas:

- \( \Delta \) = 0.833 in 2019, 0.667 in 2020, 0.500 in 2021, 0.333 in 2022, 0.167 in 2023, 0 in 2024.

Petroleum products export duty rate

According to Clause 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 On the Customs Tariff, the rate of the export duty on certain categories of goods produced from oil shall be set by the Russian Government. Petroleum products exported to Tajikistan, the Republic of Belarus, Armenia and Kyrgyzstan within the indicative limits are not subject to export duties.
The Russian Government Resolution No. 276 dated 29 March 2013 set the following procedure for determining the rates of the export duties on petroleum products:

\[ R \times C \times R_{d} \times P = D \]

where \( R \) is the export duty rate per tonne of crude oil, \( C \) is the estimated coefficient associated with the type of petroleum products, \( R_{d} \) is the rate of the export duty on petroleum products, and \( P \) is the price of oil on international markets.

The following coefficients are used to calculate export duty rates on petroleum products:

<table>
<thead>
<tr>
<th>Petroleum products</th>
<th>Coefficient</th>
<th>Coefficient</th>
<th>Coefficient</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light and middle distillates</td>
<td>0.3</td>
<td>0.5</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Diesel</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Lubricants</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Naphtha</td>
<td>0.55</td>
<td>0.55</td>
<td>0.55</td>
<td>0.55</td>
</tr>
<tr>
<td>Gasoline</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Excise duty on petroleum products

In Russia, excise duties are paid by producers of refined products. Excise duties are also applied to petroleum products imported into Russia.

Article 193 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) establishes the following excise rates for petroleum products:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
</tr>
<tr>
<td>Euro 5</td>
<td>10,130</td>
<td>11,213</td>
<td>8,213</td>
<td>12,314</td>
<td>12,752</td>
</tr>
<tr>
<td>Straight-run</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>6,800</td>
<td>7,665</td>
<td>5,665</td>
<td>8,541</td>
<td>8,835</td>
</tr>
<tr>
<td>Motor oil</td>
<td>5,400</td>
<td>5,400</td>
<td>5,400</td>
<td>5,400</td>
<td>5,400</td>
</tr>
<tr>
<td>Middle distillates</td>
<td>7,800</td>
<td>8,462</td>
<td>6,465</td>
<td>9,241</td>
<td>9,535</td>
</tr>
</tbody>
</table>

Federal Law No. 301-FZ dated 3 August 2018 introduced a new excisable product – petroleum feedstocks. The excise duty is imposed on the taxpayers that are formally registered as entities processing petroleum feedstocks either at their own production facilities or under a toll arrangement. The excise duty rate for petroleum feedstocks is defined based on global oil prices, the petroleum product mix, and region-specific features of petroleum product markets.

A tax deduction may be applicable when calculating excise duty on petroleum feedstocks. Specifically, deductions may be claimed for amounts of excise duty multiplied by 2 and increased by the value of the damping coefficient, which reflects the difference between domestic motor fuel prices and export netbacks.

**Mineral extraction tax (MET)**

Article 362 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) sets out the following formulas for calculating the mineral extraction tax rate for oil:

\[
D_{mp} = C_{MET} \times P_{MP} \times (1 - C_{A} \times C_{M} \times C_{D} \times C_{C} \times C_{D}) \times (1 - C_{s} \times C_{p})
\]

where:
- \( C_{A} \) is a coefficient reflecting global oil price dynamics and is calculated using the following formula: \( C_{A} = (P_{MP} - 15) \times R / 261 \), where \( P_{MP} \) is the average monthly Urals price on the Mediterranean and Rotterdam markets ($/barrel) and \( R \) is the average monthly $/S exchange rate.
- \( C_{M} \) is a coefficient that reflects the depletion level of a particular subsurface site. This coefficient provides for a MET rate reduction on oil for highly depleted subsurface sites. The level of reserve depletion is determined as \( N/V \), where \( N \) is the amount of accumulated oil extraction on a particular subsurface site and \( V \) is the initial extractable oil reserves of all categories on a particular subsurface site as at 1 January 2006. If the depletion level of a specific subsurface site is greater than or equal to 0.8 and less than or equal to 1, \( C_{M} \) shall be calculated using the following formula: \( C_{M} = 0.3 - 4 \times (N/V) \). If the depletion level of a particular subsurface site exceeds 1, \( C_{M} \) shall be taken to be equal to 0.3. In other cases, \( C_{M} \) shall be taken to be equal to 1. If a subsurface site contains an oil deposit(s) with \( C_{M} \) lower than 1, the \( C_{M} \) coefficient shall be set at 1.
- \( C_{D} \) is a coefficient that reflects the depletion level of a particular subsurface site. This coefficient provides for a MET rate reduction on oil for highly depleted subsurface sites. The level of reserve depletion is determined as \( N/V \), where \( N \) is the amount of accumulated oil extraction on a particular subsurface site and \( V \) is the initial extractable oil reserves of all categories on a particular subsurface site as at 1 January 2006. If the depletion level of a specific subsurface site is greater than or equal to 0.8 and less than or equal to 0.9, \( C_{D} \) shall be calculated using the following formula: \( C_{D} = 0.3 - 3 \times (N/V) \). If the depletion level of a particular subsurface site exceeds 0.9, \( C_{D} \) shall be taken to be equal to 0.9. In other cases, \( C_{D} \) shall be taken to be equal to 1. If a subsurface site contains an oil deposit(s) with \( C_{D} \) lower than 1, the \( C_{D} \) coefficient shall be set at 1.
- \( C_{C} \) is a coefficient that reflects the depletion level of a particular subsurface site. This coefficient provides for a MET rate reduction on oil for highly depleted subsurface sites. The level of reserve depletion is determined as \( N/V \), where \( N \) is the amount of accumulated oil extraction on a particular subsurface site and \( V \) is the initial extractable oil reserves of all categories on a particular subsurface site as at 1 January 2006. If the depletion level of a specific subsurface site is greater than or equal to 0.8 and less than or equal to 0.9, \( C_{C} \) shall be calculated using the following formula: \( C_{C} = 0.3 - 2 \times (N/V) \). If the depletion level of a particular subsurface site exceeds 0.9, \( C_{C} \) shall be taken to be equal to 0.9. In other cases, \( C_{C} \) shall be taken to be equal to 1. If a subsurface site contains an oil deposit(s) with \( C_{C} \) lower than 1, the \( C_{C} \) coefficient shall be set at 1.
- \( C_{s} \) is a coefficient that reflects the size of reserves of a particular subsurface site. This coefficient reduces the MET rate for smaller subsurface sites. If the initial extractable oil reserves \( V_{s} \) of a particular subsurface site as at 1 January of the year preceding the tax year are less than or equal to 5 million tonnes, and the site’s depletion level is less than or equal to 0.05 at as at 1 January 2012 (or as at 1 January of the year preceding the tax year), the MET rate can be reduced by at the coefficient \( C_{s} = 0.125 \times V_{s} \). If the depletion level of a particular subsurface site exceeds 0.05, the \( C_{s} \) coefficient shall be calculated using the following formula: \( C_{s} = 0.125 \times V_{s} ^{2} \).
- \( C_{p} \) is a coefficient reflecting the complexity of oil extraction. It ranges from 0.2 to 1 depending on the complexity of oil extraction at a particular deposit.

**Excise duty on petroleum products (P/l)***

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Euro 5</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
</tr>
<tr>
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<td>9,535</td>
</tr>
</tbody>
</table>

**MET evolution since 2017**
Clause 2.1, Article 342 and Clause 6, Article 338 of the Tax Code of the Russian Federation set the following ad valorem MET rates:

- 0.2 – when oil is extracted from a particular deposit with an approved permeability index of no more than $2 \times 10^7 \mu m^2$ and the net pay thickness of no more than $10 m$;
- 0.4 – when oil is extracted from a particular deposit with an approved permeability index of no more than $2 \times 10^7 \mu m^2$ and the net pay thickness of more than $10 m$;
- 0.8 – when oil is extracted from a particular deposit recognised as part of the Tyumenskaya suite pay zone;

- 1 – when oil is extracted from other deposits.

C is a coefficient that reflects the depletion level of a particular hydrocarbon deposit. C applies to subsurface sites that contain deposits where $C = 1$. This coefficient reduces the MET rate on oil from highly depleted deposits. The depletion level of a deposit with $C = 1$ is defined as $N/V$, where $N$ is the amount of accumulated oil extraction at a particular deposit, and $V$ is the initial extractable oil reserves of all the categories at a particular deposit as at 1 January of a year preceding the tax year. If the depletion level of a particular deposit is greater than or equal to 0.8 and lower than or equal to 1, the $C$ coefficient is calculated using the formula $C = 3.8 - 3.95 N/V$. If the depletion level of a specific deposit is greater than 1, $C$ shall be taken to equal 0.3. In other cases, $C$ is set at 1. For other deposits of this site (with $C$ equal to 1), the $C$ shall be taken to be equal to the $C$ value defined for the entire site.

$C$ is a coefficient reflecting the region of production and properties of oil. This coefficient reduces the rate of the MET on oil for the subsurface sites located entirely or partially in regions with complex weather, climatic and geological conditions (for example, on the Yamal Peninsula in the Yamal-Nenets Autonomous Area, in the Irkutsk Republic, the Republic of Sakha (Yakutia)). $C$ is taken to be equal to 0.5 on the first day of the month following the month when at least one of the following occurs: the maximum amount of accumulated oil extraction from the subsurface site is reached (1) or the deadline expires (2). When the deadline for reducing the tax expires, $C$ is set at 1.


$C_{\text{max}}$ is a coefficient reflecting the completion of the tax manoeuvre, which is set to equal the value of phased reduction of the export customs duty on oil.

$C_{\text{dip}}$ is a coefficient reflecting an increment for gasoline and diesel fuel that applies if the damping coefficient is positive and serves to determine the excise duty deduction for petroleum feedstocks.

Clause 2.1, Article 342 and Clause 6, Article 338 of the Tax Code of the Russian Federation set the following ad valorem MET rates (% of the cost) for oil extracted from new offshore fields:

- 30% for the period of 5 years from the start of commercial hydrocarbon production – for fields located entirely in the Sea of Azov or with at least 50% of their territory in the Baltic Sea;
- 15% for the period of 7 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Black Sea (up to 100 m deep), the Sea of Japan, the Pechora Sea or the White Sea, the Sea of Okhotsk (south of the 55° parallel north), or the Russian stretch of the Caspian seabed;
- 10% for the period of 10 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Sea of Okhotsk (north of the 55° parallel north), the Black Sea (over 100 m deep), or the Barents Sea (south of the 72° parallel north);
- 5% for the period of 15 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Kara Sea, the Barents Sea (north of the 72° parallel north), Eastern Arctic (the Laptev Sea, the East Siberian Sea, the Chukchi Sea, the Bering Sea).

In addition, the tax legislation established a reduced tax rate for oil extracted from the deposits recognised as part of the Bathevnovskaya suite pay zone, subject to the requirements of the Russian Tax Code being met. According to Federal Law No. 305-FZ dated 3 August 2019, from 1 January 2019 a tax deduction can be applied to the subsurface sites listed in Subclause 4, Clause 5, Article 31 of the Russian Federation Law No. 5003-1 dated 21 May 1993 On the Customs Tariff in the amount determined as $C_{\text{max}} \times V_{\text{dep}}$, where $V_{\text{dep}}$ is the quantity of crude oil extracted at a subsurface site and exported from Russia under the preferential rate of export duty for oil.

**Effective MET rate for oil across the Gazprom Neft Group**

<table>
<thead>
<tr>
<th>Rates</th>
<th>2018</th>
<th>2017</th>
<th>Δ %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard MET rate for oil, P/ t</td>
<td>12,635</td>
<td>8,134</td>
<td>53.1</td>
</tr>
<tr>
<td>Effective MET rate for oil (with $C$, $C$, $C$, $C$, $C$ applied), P/ t</td>
<td>10,354</td>
<td>6,825</td>
<td>51.7</td>
</tr>
<tr>
<td>Deviation of the effective MET rate for oil from the standard rate, P/ t</td>
<td>2,101</td>
<td>1,209</td>
<td></td>
</tr>
<tr>
<td>Deviation of the effective MET rate for oil from the standard rate, %</td>
<td>16.9</td>
<td>16.1</td>
<td></td>
</tr>
</tbody>
</table>

In 2018, the effective MET rate for oil was P 10,301 / tonne, which is P 2,154 / tonne below the average standard rate set in accordance with the tax legislation. This deviation is due to the concessions on the MET rate for oil prescribed by the tax legislation, including the $C$, $C$, $C$, $C$, $C$, and $C$ reduction coefficients.

**MET on natural gas and gas condensate**

Article 342 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) establishes the following MET rates for flammable natural gas and gas condensate.

**MET on natural gas and gas condensate**

<table>
<thead>
<tr>
<th>Natural gas, P/ 1,000 m³</th>
<th>$35 \times U_{\text{d}} \times C_{\text{dep}} \times T_{\text{g}}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas condensate, P/ t</td>
<td>$42 \times U_{\text{d}} \times C_{\text{dep}} \times T_{\text{g}} \times 0.75 \times C_{\text{max}}$</td>
</tr>
</tbody>
</table>

$U_{\text{d}}$ is the base value of a fuel equivalent unit calculated by the taxpayer based on the natural gas and gas condensate prices, as well as the ratio of these hydrocarbon's production volumes.

$C_{\text{dep}}$ is a coefficient reflecting the complexity of mineral resource extraction from the deposit. This coefficient reduces the MET rate and is taken to equal the lowest of the five reduction coefficients: $C_{\text{dep}}$ (concession based on location), $C_{\text{dep}}$ (concession for depleted sites), $C_{\text{dep}}$ (concession for deposits at depths below 1 km), $C_{\text{dep}}$ (concession for the subsurface areas that are part of a regional gas supply system) and $C_{\text{dep}}$ (concession for the deposits recognised as part of the Turonian pay zones).

$T_{\text{g}}$ is an indicator reflecting costs of natural gas transportation taken to be equal to 0 in 2017–2018 based on the data of the Federal Antimonopoly Service of the Russian Federation.

$C_{\text{ag}}$ is an adjustment coefficient equal to $4.5/C_{\text{d}}$, where $C_{\text{d}}$ is a coefficient reflecting the export margin of a fuel equivalent unit.

In 2019, the effective MET rate for natural gas was P 56/ 1,000 m³, which is IP 43 lower than the average standard rate set in accordance with the tax legislation. This deviation is due to the concessions on the MET rate for natural gas prescribed by the tax legislation, in particular the $C_{\text{d}}$ reduction coefficient.

<table>
<thead>
<tr>
<th>Effective MET rate for natural gas, P/ 1,000 m³</th>
<th>2017</th>
<th>Δ %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective MET rate for natural gas, P/ 1,000 m³</td>
<td>56</td>
<td>43</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effective MET rate for gas condensate, P/ 1,000 m³</th>
<th>2017</th>
<th>Δ %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective MET rate for gas condensate, P/ 1,000 m³</td>
<td>102</td>
<td>44</td>
</tr>
</tbody>
</table>
### Additional income tax (AIT)

Federal Law No. 199-FZ dated 19 July 2018 introduced a tax on additional income from the extraction of hydrocarbons, effective from 1 January 2019. The AIT will be levied on the income from hydrocarbon extraction at a rate of 50% minus an estimated export duty and transportation costs, as well as actual capital and operating expenses associated with the development of the subsurface site. The new tax regime envisages a reduction in the total amount of fiscal payments that depend on gross metrics (MET and oil export customs duty), achieved through changing the MET calculation formula and implementing a framework of fiscal concessions on MET and the export customs duty for certain categories of pilot projects. A set list of pilot sites eligible for the AIT was drawn up for the new fiscal regime’s trial period, with the sites of all categories represented in Gazprom Neft’s portfolio.

### Tax benefits

The existing tax legislation provides for the following types of tax concessions, which are applied by the Group’s subsidiaries (including reduced tax rates and reduction coefficients for the MET on oil and natural gas).

#### Types of tax benefits

<table>
<thead>
<tr>
<th>Tax benefits applied in 2018</th>
<th>Eligible entities of the Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MET on natural gas</strong></td>
<td></td>
</tr>
<tr>
<td>The C,M reduction coefficient on the MET rate</td>
<td>JSC Gazpromneft-Noyabrskneftegaz, LLC Zapolyarneft, LLC Gazpromneft-Yamal, LLC Gazpromneft-Grenburg</td>
</tr>
<tr>
<td>MET on oil</td>
<td></td>
</tr>
<tr>
<td>The C reduction coefficient on the MET rate</td>
<td>JSC Gazpromneft-Noyabrskneftegaz, LLC Gazpromneft-Grenburg</td>
</tr>
<tr>
<td>The C reduction coefficient on the MET rate</td>
<td>JSC Gazpromneft-Noyabrskneftegaz, LLC Gazpromneft-Yamal, LLC Gazpromneft-Khantos</td>
</tr>
<tr>
<td>The C reduction coefficient on the MET rate</td>
<td>JSC Gazpromneft-Noyabrskneftegaz, LLC Gazpromneft-Vostok, LLC Zapolyarneft, LLC Gazpromneft-Khantos, LLC Gazpromneft-Grenburg</td>
</tr>
<tr>
<td>The C reduction coefficient on the MET rate</td>
<td>JSC Gazpromneft-Noyabrskneftegaz, LLC Gazpromneft-Vostok, LLC Zapolyarneft, LLC Gazpromneft-Khantos</td>
</tr>
<tr>
<td>The C reduction coefficient on the MET rate</td>
<td>PJSC Gazprom Neft, LLC Gazpromneft-Neftegaz, LLC Gazpromneft-Zapolyarneft, LLC Gazpromneft-Yamal, LLC Gazpromneft-Orenburg</td>
</tr>
<tr>
<td><strong>Property tax</strong></td>
<td></td>
</tr>
<tr>
<td>Exemption from property tax for fields that commenced development after 1 January 2011 (in accordance with the local legislation of KMAA – Yugra)</td>
<td>LLC Gazpromneft-Khantos, LLC Gazpromneft-Noyabrskneftegaz</td>
</tr>
<tr>
<td>A reduced rate of 1.1% for property that was created/purchased during the implementation of investment projects in the Yamal-Nenets Autonomous Area (in accordance with the local legislation of the Yamal-Nenets Autonomous Area)</td>
<td>JSC Gazpromneft-Noyabrskneftegaz, LLC Zapolyarneft</td>
</tr>
<tr>
<td>Exemption from property tax for property that was created/purchased and put into operation during the implementation of investment projects in the Orenburg Region (in accordance with the local legislation of the Orenburg Region)</td>
<td>LLC Gazpromneft-Grenburg</td>
</tr>
<tr>
<td>Exemption from property tax for property that was created/purchased and put into operation during the implementation of investment projects in the amount of 50% of the tax payable to the Tomsk Region’s budget (in accordance with the local legislation of the Tomsk Region)</td>
<td>LLC Gazpromneft-Vostok</td>
</tr>
<tr>
<td>Exemption from property tax for property that was created/purchased and put into operation during the development of the technology for prospecting and exploration of the pre-Jurassic deposits in the Tomsk Region (in accordance with the local legislation of the Tomsk Region)</td>
<td>LLC Gazpromneft-Vostok</td>
</tr>
</tbody>
</table>

1. For other activities related to PJSC Gazprom-consolidated group of taxpayers.
APPENDIX 7.
LIST OF MAJOR TRANSACTIONS
AND INTERESTED-PARTY TRANSACTIONS

Major transactions

The Company’s Charter does not specify other transactions required to be executed in accordance with the major transactions approval procedure.

Interested-party transactions
In the 2018 reporting year, Gazprom Neft executed the transactions which were deemed to be interested-party transactions pursuant to the Federal Law On Joint-Stock Companies and required approval under Chapter XI of the Federal Law On Joint-Stock Companies.

The information on the transactions executed in 2018 is specified in the Report on Gazprom Neft’s PJSC Interested-Party Transactions Made in 2018 (the “Report”) approved by the Company’s Board of Directors on 19 April 2019 (Minutes No. PT-0102/19 dated 19 April 2019).

GLOSSARY

ADR
American depositary receipt

Alkaline-surfactant-polymer (ASP) flooding
Chemical technique for oil recovery enhancement at mature fields where a mixture of alkali, surfactant and polymers is injected into the reservoir

APG
Associated petroleum gas

Augmented reality
A technology that superimposes computer-generated digital information (images, video, text, graphics) on the content displayed by an electronic device, be it a smart phone or AR glasses. In production, it is leveraged to promptly receive information about equipment and its condition, simulate work processes, report failures, conduct employee training, and more. It also significantly reduces the number of errors and increases work efficiency

B2B
The exchange of products and services between businesses, rather than between businesses and consumers

B2C
The process of selling products and services directly to consumers who are the end-users of these products and services

Bps
Basic point

Cased borehole
Borehole section with casing pipes installed. Casing pipes are screwed on to each other or welded together to form a casing column

CGU
Cash-generating units

CIS
Commonwealth of Independent States (post-Soviet republics, with the exception of Latvia, Lithuania, Georgia and Estonia)

CNG
Compressed natural gas

Corporate culture
A system of shared values, attitudes, goals and principles of teamwork and workplace dispute settlement, common to all Company employees and based on corporate values

Corporate culture workshops
Employee workshops with participation of the Group’s executives set up to discuss “as is” and “to be” state of the Company’s corporate culture model and the initiatives required to build a more engaging working environment

CPI
Consumer price index

D&O
Liability insurance of directors and officers

DCU
Delayed coker unit

EAD
Electronic asset development

EBIT
Earnings before interest and taxes. This measure of a company’s financial performance stands in-between gross and net profit

EBITDA
Earnings before interest, taxes, depreciation and amortisation

ECA
Export credit agency

Engaging environment
A set of principles and processes that help employees reach their full potential, work relentlessly to develop and improve their performance, actively collaborate to address issues, and feel a sense of personal responsibility for their share of work and outcomes

Etalon
An operations management system based on an exemplary business model. The endeavours to deliver exemplary performance are typical of a mature company that has successfully navigated through developmental challenges

EURIBOR
Euro Interbank Offered Rate
FAR
Fatality accident rate

GDP
Gross domestic product

GRI
An internationally recognised sustainability reporting framework developed by the Global Reporting Initiative

Hierarchical management
A classical organisational model integrating top-down management guidance with down-top flow of information from personnel on the ground. It is based on stringent supervision, clear delineation of responsibilities, cumbersome processes and vertical hierarchy and is viewed as hardly effective in today’s world

IEA
International Energy Agency

IFRS
International Financial Reporting Standards

Industrial Internet of things
IIoT refers to interconnected sensors attached to physical assets and networked together with computers to enable efficient data collection and exchange. It is used for remote control of equipment and industrial automation, cutting down human intervention

IRMF
Integrated risk management framework

KPI
Key performance indicator

Lean production
An approach to management that focuses on continuous improvement and aims to eliminate all sorts of losses. It engages all employees in driving a flow of improvements

LIBOR
London Interbank Offered Rate

LPG
Liquefied petroleum gases

LTIFR
Lost time injury frequency rate

Management by objectives
Collective approach to formulating goals, setting the direction, and decision making inside the company. It ensures that the executives and employees share the same goals, understand their importance, and are able to assess their performance and facilitate improvements

Network-based management
A modern management model based on flexible cross-functional teams capable of setting their own goals and making independent decisions. It relies on horizontal hierarchy, lifelong learning and personal responsibility for the outcomes. It is best for addressing complex challenges in a rapidly changing environment

NGL
Natural gas liquids

NIS
Naftna Industrija Srbije A.D., Novi Sad

NPP
Non-profit partnership

NPS
Net Promoter Score

Oe
Oil equivalent

OECD
Organisation for Economic Cooperation and Development

OMS
Operations management system

OPEC
Organization of the Petroleum Exporting Countries

PBB
Polymer-bitumen binders

PMB
Polymer modified bitumen used for road construction

Pp
Percentage point

Predictive analytics
Data analysis methods that aim to predict future behaviour of subjects and objects in order to drive better decisions

Predictive incident management
A fundamentally new approach to equipment maintenance and repair based on the analysis of digital data gathered from sensors to accurately predict wear and tear. It helps maximise maintenance efficiency and prevent accidents

PRMS
The Petroleum Resources Management System. It is the most widely used one of its kind in the world, defining not only the degree of uncertainty in relation to discovering oil and gas, but also the economic feasibility of extracting hydrocarbons. The petroleum quantities are estimated based on the 3P scenario (proved, probable, possible)

Proppant / propping agent
Granular material designed to keep an induced hydraulic fracture open under ground pressure and thus enhance oil recovery

R&D
Research and development

RAS
Russian Accounting Standards

Refinery
Oil refinery

Regular management practices
Executive tools designed to improve efficiency and safety of production facilities. They rely on clearly defined algorithms and implementation principles and apply at all levels of company management. Regular management practices help embed the Company’s values and develop a cultural environment conducive to achieving its strategic goals

ROACE
Return on average capital employed, calculated as net profit (less dividends on shares) divided by the average number of ordinary shares

SEC
U.S. Securities and Exchange Commission

Seismic
Seismic survey

Underbalanced drilling
Drilling technique where the reservoir pressure is higher than the pressure in the wellbore. The pressure difference minimises formation damage and increases the rate of penetration and oil recovery rate

US GAAP
Generally Accepted Accounting Principles approved in the US

USA
United States of America

VAT
Value-added tax
DISCLAIMER

This Annual Report is based on the information available to the Public Joint-Stock Company Gazprom Neft and its subsidiaries ("Gazprom Neft") as at the report date.

This Annual Report contains forward-looking statements that represent the expectations of the Company's management. The forward-looking statements are not based on actual circumstances and include all statements pertaining to the Company’s intentions, opinions or current expectations with regard to its performance, financial position, liquidity, growth prospects, strategy and the industry in which Gazprom Neft operates. By their nature, such forward-looking statements are subject to inherent risks and uncertainties, as they relate to events and depend on circumstances that may or may not occur in the future.

Such words as “assume”, “believe”, “expect”, “forecast”, “intend”, “plan”, “a project”, “consider”, “might” and other similar or equivalent words and phrases as well as their use with negations generally indicate a forward-looking statement. These assumptions are subject to risks and uncertainties both expected and unforeseeable by the Company. Therefore, future performance may differ from current expectations, and the recipients of the information contained herein should not use it as a sole basis for their assumptions.

Apart from the official information on the Gazprom Neft activities, this Annual Report contains information obtained from third parties and the sources which Gazprom Neft deems reliable. Nevertheless, the Company does not guarantee the accuracy of this information as it may be condensed or incomplete. Gazprom Neft does not provide any guarantees that the actual results, scale and performance indicators of the Company’s operations or those of the industry in which the Company operates will be consistent with the results, scale and performance indicators expressly stated or implied in any forward-looking statements contained herein or otherwise. Gazprom Neft shall bear no responsibility for any losses that may be incurred by anyone due to the fact that such a person relied on the forward-looking statements. Except as expressly required by applicable law, the Company assumes no obligation to distribute or publish any updates or revisions to the forward-looking statements to reflect any changes in expectations or new information, as well as subsequent events, conditions or circumstances.

ADDRESSES AND CONTACTS

FULL COMPANY NAME
Public Joint-Stock Company Gazprom Neft

SHORT COMPANY NAME
Gazprom Neft

LEGAL ADDRESS
St Petersburg, Russia

REGISTRATION DATE
The Company was registered on 6 October 1995 by the Omsk Registration Chamber. Statutory Registration Certificate No. 3806440. Primary State Registration Number (OGRN) 1025501701768.

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AUDITOR
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