

REGIONAL POLICY AND DEVELOPMENT OF LOCAL COMMUNITIES

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 for 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 Omsk Region saw more 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 Dybal
Deputy CEO
for Corporate
Communications



Policy On Interactions
with Indigenous Northern,
Siberian and Far Eastern
Minorities

Home Towns social investment programme

In 2012, Gazprom Neft chose to combine all its social investment initiatives into a single umbrella programme called Home Towns, shifting focus from targeted support towards a social investment approach ensuring consistent improvement of living standards across the Company's footprint.

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.

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.

Social and economic agreements

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

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

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 volunteers 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 competitions in six regions where we operate, providing ₹ 26 m in grant funding and helping local residents realise 118 projects.



Investments in better life: outcomes of the 5th Home Towns forum



"Bolshoy Festival has a great future"



The art of inspiration: Stenografiffa 2018 festival



"We make it a point to draw attention to fundamental science"



Opening of an ice stadium in Muravlenko

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 hosts a festival of Russian classical music with the globally renowned film director Emir Kusturica as its founder and key mastermind. Gazprom Neft has been sponsoring the festival since its inception in 2013. The event primarily seeks to support young musicians and foster cultural ties between Russia and Serbia, with its programme featuring a contest of aspiring musicians, various workshops and performances by the world's classical music stars such as Valery Gergiev and Denis Matsuev. The 6th 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 Mastera. Academy online media portal, which serves as a free platform for young entrepreneurs to share their experiences, develop professional competencies and present their products to a wider audience. The reporting year saw over 10,000 people take Mastera. Academy online courses.

ARITHMETIC PROGRESSION

Gazprom Neft is a partner of the Chebyshev Laboratory at St Petersburg State University led by the Fields medal winner Stanislav Smirnov. Our joint project, Arithmetic Progression, provides support to young mathematicians at every stage of learning, which includes enrolling schoolchildren at universities, allocating dedicated scholarships to students, offering grants and internships (both in Russia and overseas) to young scientists, and funding fundamental research projects of professional teams. In the reporting year, the Company offered scholarships and prizes to 60 students and four young scientists as part of the project.

DEVELOPING TALENT

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

STENOGRAFFIA FESTIVAL

Gazprom Neft supports Stenograffia, a major street art and graffiti festival which invites the participants to transform inconspicuous town buildings into works of art. In 2018, Stenograffia helped create new landmarks across the Company's "native" towns.

STRELKA CONFERENCES

Together with Strelka Institute for Media, Architecture and Design, the Company organises educational events for people living in St Petersburg and Omsk. In the reporting year, more than 4,000 St Petersburg residents attended In the City, a conference on technologies shaping the future of our cities. In Omsk, the Your Town in Your Own Hands project brought together over 1,000 locals, with another 54,000 watching the online broadcast.

HOME TOWNS SOCIAL INVESTMENT FORUM

This is the central annual event staged by Gazprom Neft to discuss regional development and social projects and attended by a wide range of stakeholders, including the Company's partners, volunteers, grantees, Russian and international experts. The 2018 forum focused on the role of business in the social development of cities.

Supply chain

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 5,437 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 System 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

